

IRISH FINANCE.

REPORT

BY THE

COMMITTEE ON IRISH FINANCE.

Presented to Parliament by Command of His Majesty.

LONDON.

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COMMITTEE ON IRISH FINANCE.

To the Right Honourable H. H. Asquith, M.P.,
&c., &c.

Introductory.

Sir,

1. WE have the honour to present, for the information of His Majesty's Government, the following Report, together with Minutes of Evidence and various Appendices, on the matters that were referred to us for inquiry, in the terms of the following order:—

(1.) *To ascertain and consider the financial relations between Ireland and the other component parts of the United Kingdom as they exist to-day, paying especial regard to the changes that have taken place both in Revenue and Expenditure since 1896, the date of the Report of the Royal Commission.*

(2.) *To distinguish as far as possible between Irish Local Expenditure and Imperial Expenditure in Ireland.*

(3.) *To consider, in the event of Irish local affairs being entrusted to an Irish Assembly with a responsible Executive, how the revenue required to meet the necessary expenditure should be provided.*

INTERPRETATION OF TERMS OF REFERENCE.

2. In laying out our course of procedure it appeared to us that the consideration of time imperatively required that we should give to these terms of reference a strict and literal interpretation, as any widening of their scope would almost certainly render it impossible for us to complete our labours by the date on which His Majesty's Government would probably desire to be in possession of the outcome of our inquiries. Other considerations, moreover, equally pointed in the same direction, and we have accordingly sought, as far as possible, to confine our proceedings within the precise limits of the order of reference. It has of course been necessary to acquaint ourselves with the past history of Irish finance, and notably to study the various findings of the Royal Commission of 1894-6. But the problems that were referred to that body were essentially different from those which we have been charged to examine. They were problems of history and of economics, and were investigated without special reference to political or administrative changes in immediate contemplation, the Bill of 1893 having been already defeated. With us the task is the more limited one of ascertaining, to the best of our ability, actual facts and figures as they stand to-day, and of suggesting how best these may be made to fit in to a new order of political relations between Great Britain and Ireland. We have therefore endeavoured to treat the matter, as far as possible, as a plain business proposition, to be handled with reference to the actual circumstances of the moment and with as little reference as may be to disputable questions of history or of economic doctrine.

ORAL EVIDENCE.

3. We have examined the following witnesses:—

The Right Honourable Sir George Murray, G.C.B., Permanent Secretary of the Treasury.

Mr. Herbert V. Reade, Sir Arthur J. Todder, and Mr. Samuel Bozman, Customs and Excise Department.

Mr. Alfred W. Soward, Secretary of the Estate Duty Office of the Inland Revenue

Mr. Frederick Atterbury, C.B., Secretary of Stamps, Inland Revenue Department.
 Mr. George F. Howe, Special Commissioner of Income Tax.
 Mr. William Sharland, Inspector of Taxes.
 Mr. William Gibbs Turpin, Comptroller of the National Debt.
 The Right Honourable Sir James Dougherty, K.C.B., Under-Secretary for Ireland.
 Mr. W. P. J. Connolly, Principal Clerk in the Chief Secretary's Department.
 The Right Honourable Sir Henry Robinson, K.C.B., Vice-President of the Local Government Board for Ireland.
 Mr. George Stevenson, C.B., Commissioner of Public Works, Ireland.
 Mr. Charles Beard, L.S.O., Secretary to the Irish Land Commission.
 Mr. Richard Lewis, L.S.O., Accountant of the Irish Land Commission.
 Sir John Barton, C.B., Commissioner of Valuation in Ireland.
 Sir William Thompson, M.D., Registrar-General for Ireland.
 Dr. Ninian Falkiner, Superintendent of Statistics in the Office of the Registrar-General for Ireland.
 The Right Honourable William F. Bailey, C.B., Estates Commissioner and Land Commissioner.
 Mr. Thomas P. Gill, Mr. Thomas Butler, and Mr. Joseph P. Walsh, Department of Agriculture and Technical Instruction for Ireland.
 Mr. M. A. Ennis, Chairman of the Standing Committee on Legislation of the Irish County Councils General Council.
 Sir Steynning Edgerley, K.C.V.O., C.I.E., Member of the Council of the Secretary of State for India.
 Mr. Charles A. King, C.B., Comptroller and Accountant-General of the Post Office.
 The Right Honourable Lord MacDonnell, G.C.S.I., K.C.V.O.
 Mr. J. Milne Barbour, President of the Belfast Chamber of Commerce.
 The Right Honourable Laurence Waldron, Member of the Dublin Stock Exchange and of the Dublin Chamber of Commerce.

It will be seen that the majority have been official witnesses who could explain and amplify the evidence contained in official documents. Outside this class we have confined ourselves to examining two or three gentlemen who, in a representative character, might be able to speak on behalf of those interested in the local government or in the trade and commerce of Ireland, together with a member of the Council of the Secretary of State for India, who was kind enough to come and explain the system of provincial finance in India. We have made no attempt to extend our inquiries to the question how the financial position of Ireland compares with that of the separate component parts of Great Britain, a question even more difficult of exact determination than that of the financial relations between Great Britain as a whole and Ireland.

DOCUMENTARY EVIDENCE: TREASURY WHITE PAPER.

4. In the documentary evidence that we have had before us the annual Parliamentary Return of "Revenue and Expenditure (England, Scotland, and Ireland)," commonly known as "the Treasury White Paper," has necessarily been our principal source of information in regard to the facts of the financial situation as it exists to-day. Its genesis, and the scheme and method of its composition, are described at length in a paper which has been drawn up for us by our Secretary from the evidence, and which we attach to our Report. Briefly, it may be said that the Return represents an attempt to dissect the accounts of the Exchequer of the United Kingdom, so as to show on the revenue side the true contributions to the Consolidated Fund drawn from England, Scotland, and Ireland respectively, and on the expenditure side the distribution of the issues under the four heads of English, Scottish, Irish, and General (or Joint) services. As regards the revenue, the materials for an exact classification are admittedly imperfect. Official records localise the receipt of revenue. But, with one or two exceptions, they do not make it possible to identify with precision the final incidence of the whole of the sums collected. Accordingly it has been necessary, in the case of taxes on commodities, to obtain from time to time, through the agency of traders and carrying companies, special returns of the quantities of dutiable goods passing between Great Britain and Ireland; and in the case of direct taxes to draw certain inferences from observed indications in the official statistics, and to apply these inferences to the figures of revenue as collected. In neither case can the result obtained be regarded as more than an approach to a correct estimate of the amounts actually drawn from English, Scottish, and Irish taxpayers respectively. For

in the first place complete accuracy could not be claimed either for the special returns or for the inferences, even in respect of the periods for which they were originally made; and, secondly, except in the matter of population, it has not been possible to make any allowance in subsequent years for such variations as may have taken place in the bases of the original calculations. At the same time it would be a mistake to infer that the margin of error is so wide as to impair seriously the value of the calculations. At a later stage we shall give, in detail, the results of our examination of the adjustments made under the several heads of revenue, and shall state to what extent they seem to us to require correction. Meanwhile we may summarise our general conclusions on this part of the White Paper as follows:—

- (i.) That while under certain heads the estimates of "true" Irish revenue call for correction, the corrections go far to balance each other, and the total revenue as given in the Return approximates closely to the facts.
- (ii.) That while the utmost pains have been taken with the available means to make the estimates of "true" revenue approximately correct, the data for an exact calculation neither exist, nor under present administrative machinery can be procured—a remark which applies with even greater force to Scotland than it does to Ireland.
- (iii.) That, in consequence, the Paper, however useful it may be for giving an approximate idea of the true revenues of Great Britain and Ireland respectively, could not serve as a sufficiently firm basis on which to found a permanent arrangement of the financial relations between the two countries, if "true" revenue were to be taken as the determining factor in the settlement.

WHITE PAPER: CLASSIFICATION OF EXPENDITURE.

5. In regard to the distribution of expenditure, as general or particular, the Return adopts the principle of ascribing to each country so much of the expenditure as is incurred in, or distinctly on behalf of, that country, in respect of civil government (whether charged on the Consolidated Fund or on votes of Parliament), collection of taxes, and Post Office services: and of including all the rest under the head of "General (or Joint) Services." All charges for the National Debt and for Naval and Military services are included under this latter head. We shall deal with this subject in more detail under the second section of our terms of reference. Here we confine ourselves to observing that the method of classification adopted by the Treasury appears to us, for the purpose that the Return is intended to serve, to be sound, and, indeed, the only one appropriate.

Part I.—Revenue and Expenditure of Ireland.

CHARACTER OF REVENUE AND EXPENDITURE.

6. Land Tax, Inhabited House Duty, Railway Passenger Duty, and Patent Medicine Duties are not leviable in Ireland. But with these exceptions the Imperial Revenue in Ireland is raised by means of the same taxes, levied at substantially the same rates,* as those of Great Britain. The Establishment Licence Duties (on male servants, carriages, motors, and armorial bearings) and Dog Licence Duties, which are leviable in Great Britain but not in Ireland,† have since 1908 ceased to be imperial taxes in England and Wales. There is also a close correspondence between the heads under which expenditure falls in the respective countries, the more important of the items peculiar to Ireland being the expenses of the Lord Lieutenant, of the Royal Irish Constabulary, and the Dublin Metropolitan Police, and those of the Land Commission, and in some respects those of the Department of Agriculture.

PRESENT AMOUNT OF REVENUE AND EXPENDITURE.

7. The amount of the "true" revenue, according to the most recent Treasury White Paper, No. 220 of 1911, was in the year 1910–11, 11,665,500*l.* But the receipts

* There are some slight differences between the two countries in the scales of liquor licence duties.
 † In Ireland there is a small Police Licence on Dogs, which has always been treated as a local tax.

of the year were so disturbed by the circumstances attending the passing of the Finance Act for 1909-10 that it is necessary to make certain adjustments in them in order to obtain an approximately correct figure for the present revenue of Ireland. These adjustments we will explain in detail later. Meanwhile we may say that we place the present "true" revenue of Ireland at about 10,300,000*l*.

The expenditure was not similarly affected by the Budget of 1909, and for it, therefore, we may take the figure of 11,344,000*l*. given in that Return as the amount of the issues from the Exchequer on account of Irish services in 1910-11. Thus, according to the Paper, Irish expenditure in 1910-11 exceeded Irish "true" revenue by more than 1,000,000*l*. The expenditure includes certain growing services, notably land purchase and old age pensions, while there are not at present visible any declining services that might lead to counter-balancing economies. Therefore it is certain that, apart from the normal tendency to growth of the cost of civil administration, and apart from any new charges that fresh legislation may impose, the excess of Irish expenditure over Irish revenue will with a continuance of the existing conditions of partnership with Great Britain show a further substantial increase in the immediate future.

COMPARISON WITH 1895-6.

8. If we compare the above figures with the corresponding figures as they stood in 1895-6, we find that in that year the "true" Irish revenue was 8,034,000*l*, and the Irish local expenditure 5,938,000*l*, so that, while the revenue during the fifteen years increased by nearly 28 per cent., the expenditure increased by 91 per cent. During the same period the "true" revenue of Great Britain increased from 99,738,000*l*. to 155,137,000*l*, or by 55½ per cent., and the local expenditure from 32,306,000*l*. to 60,544,000*l*, or by 87½ per cent.

DISTRIBUTION OF INCREASE IN IRISH REVENUE.

9. Looking to the distribution of the increase in Irish revenue, we find that the additional "true" revenue of about 2,250,000*l*. may be roughly distributed under the several heads as follows:—

						£
Customs	..	..	..	..	..	800,000
Excise	..	..	..	..	..	70,000
Estate Duties	..	..	..	..	..	500,000
Stamps	..	..	..	..	..	80,000
Income Tax	..	..	..	..	..	600,000
Postal Services	..	..	..	..	..	400,000
Total	..	..	..	..	..	2,250,000

On Crown lands and "Miscellaneous" there was a decrease of 24,000*l*.

The additions to taxation that have been made since 1895-6 are roughly as follows:—

						Ratio of Increase.
Tea	..	..	..	..	per lb.	a. d. Per cent.
Tobacco	..	..	..	..	"	0 1 25
Sugar (a new duty since 1895-6)	..	..	..	..	per cwt.	0 6 12 (about)
Spirits	..	..	..	..	per gall.	1 10 new
Beer	..	..	..	..	per barrel	4 d 40 (about)
Estate Duties (as in "The Finance Act, 1909-10")	..	..	..	..	Various	1 0 14 (about)
Stamps (as in "The Finance Act, 1909-10")	..	..	..	..	"	?
Income Tax (subject to abatements on small or earned incomes)	..	..	..	..	In the £	?
Super-Tax	..	..	..	..	"	0 6 new

GROWTH OF IRISH REVENUE.

10. With respect to Estate Duties, Stamps, and Income Tax, it would involve much intricate calculation to endeavour to determine the ratio that the new rates of

tax bear to the old, because, owing to the economic condition of Ireland, with its lower range of incomes, its smaller accumulations of realised capital, and its limited number of commercial and financial transactions, the increases that have been made in the rates of the several classes of duty do not operate in their full force in that country. We therefore do not make the attempt. But with the taxes on articles of consumption a comparison between the yields in Ireland of the several duties as they actually are now and as they would have been if, from the amounts shown in the White Paper No. 336 of 1896, they had grown only in equal proportion with the rates of duty, can be made, and is of interest. It is shown in the following table:—

—	Actual yield 1910-11.	Ratio of increase of duty.	Proportionate yield as compared with yield in 1895-6.	Excess or deficiency of actual over proportionate yield.
	£	Per cent.	£	£
Tea	569,000	25	454,000	+ 105,000
Tobacco	1,808,000	12	1,241,000	+ 436,000
Sugar	273,000	..	..	..
Beer	1,900,000	14	792,000	+ 208,000
Spirits—				
British	1,966,000	40	1,966,000	— 1,080,000
Foreign and colonial ..	317,000	49	494,000	— 177,000

The figures in the fourth column show a substantial increase in consumption of the commodities Tea, Tobacco, and Beer, in spite of the concurrent adverse influences of a declining population and of higher rates of duty, and may be regarded as distinctly indicative of improved economic conditions in Ireland. The falling off in the consumption of spirits is noticeable, and is suggestive of a marked change of habit in the Irish people.

DISTRIBUTION OF INCREASE IN IRISH EXPENDITURE.

11. The increase of some 5,400,000*l.* in Irish expenditure was distributed under the following heads:—

	£
Aid of Local Taxation	about 850,000
Post Office Services	600,000
Collection of Taxes	70,000
Department of Agriculture	345,000
Land Commission	350,000
Educational Votes (Class IV)	600,000
Old Age Pensions	2,400,000
Ireland Development Grant	185,000
Total	5,420,000

On the balance of other services there was a small saving shown.

OBSERVATIONS ON INCREASES IN EXPENDITURE.

12. It is a commonplace of the Irish question, and one that was much insisted on by the Royal Commission of 1894-6, that Ireland suffers from her financial partnership with Great Britain through being compelled to keep pace in expenditure with a country many times richer than herself—(in this connection we invite special attention to the remarks in paragraphs 88-104 of the Report signed by Lord Farrer and others)—and it will be of interest to scrutinise the increase which has taken place in her expenditure during the last fifteen years, in order to see how far it supports the contention. Of the eight heads under which marked increase has occurred, the first, "Payments in aid of Local Taxation," represents in the main a transfer from rates to taxes and may be left out of account. Of the rest, the amount falling under the head of the Land Commission represents a service (Land Purchase) that is peculiar to Ireland, and a considerable part of the increased expenditure by the Department of Agriculture is also to a great extent peculiar to Ireland, viz., the Grant in Aid of Congested Districts. With these therefore it may be assumed that Irish requirements alone have determined the amount of the expenditure. But even here the influence of the partnership has made itself felt, for the cost of land purchase to the Exchequer under the Act of

1903 is much in excess of what it might have been; and for this the Imperial Parliament, and not Ireland, must be held responsible. The increase of 600,000*l.* on Educational Votes does not call for criticism here, nor perhaps does that of 70,000*l.* on Collection of Taxes, beyond the remark that where a service is unified for the United Kingdom, the cost of the Irish portion is certain to be higher than it would be if the Irish portion were nationalised. But with the Post Office it is different. With a falling population in Ireland and with no very marked enhancement in the general activities of the country, an increase of nearly 74 per cent. in fifteen years in the cost of running the business of the Post Office certainly requires explanation; and from the evidence of the Accountant-General of the Post Office, we gather that it must be attributed in great measure to the fact that enlarged postal facilities, entailing extra expense, and augmentations of pay, both of which were considered to be required in Great Britain, had, under the unified system of administration, to be extended to Ireland, notwithstanding that the circumstances of Ireland taken by themselves would not under either head have justified such large additions to the cost of the establishment there.

OLD AGE PENSIONS.

13. The amount of the charge for Old Age Pensions, which for 1911-12 is expected to reach some 2,800,000*l.*,* is especially instructive. In a population which now numbers only some 4,000,000, but which includes the survivors of a population which 70 years ago exceeded 8,000,000, it is inevitable that the proportion of pensioners must be much higher than in Great Britain, with its population of 41,000,000, which includes the survivors of a population which in 1841 numbered no more than 18,500,000. But, after making all due allowance for this factor, it is impossible not to feel that, if the Government had had to construct a scheme of Old Age Pensions especially for Ireland, they would have devised a much less costly and a much less comprehensive scheme than the one now in operation. But the Act had to be framed to suit the conditions of the industrial workers of Great Britain, and, in consequence of the political connection, had to be extended, unchanged and unadapted, to a population whose conditions were widely dissimilar. If Home Rule had been granted to Ireland before the passage of the Old Age Pensions Act, it is very doubtful indeed if an Irish Parliament would have in that regard followed the example of Great Britain. So much has been almost in terms stated in public speeches by the leading Irish politicians. In any case, we regard it as absolutely certain that if an Irish Parliament had passed an Old Age Pensions Act it would not have been of such a costly character as to absorb at one stroke nearly one-third of the total revenue of the country. In Great Britain not more than 20 per cent. of the population are living under rural conditions, while in Ireland some 70 per cent. of the population are rural in character, and a purely Irish scheme would surely have taken that fact into account.

IRELAND DEVELOPMENT GRANT.

14. The Ireland Development Grant is illustrative of another way in which the financial partnership is apt to affect Irish expenditure. In 1902, under the Education Act of that year, certain additional grants for educational purposes were made in Great Britain. The circumstances in Ireland did not call for precisely similar grants. But it was contended that Ireland ought not on that account to be deprived of an equivalent benefit from the common purse, and accordingly the Development Grant was instituted. The purposes to which it was to be devoted were no doubt excellent and desirable in themselves. But it is in the desire to preserve equality of drafts on the general exchequer, rather than in the merits of those purposes, that the motive for the grant is to be found.

EFFECT ON IRISH EXPENDITURE OF THE FINANCIAL PARTNERSHIP.

15. On these facts we hold that the experience of the last few years amply confirms the theory that a financial partnership with Great Britain does lead in Ireland to a scale of expenditure that is beyond the requirements and beyond the natural resources of the country itself; and the matter seems to us of such great and such increasing importance that we must be excused if we dwell on it at some further length. It was important enough, but still not vital, so long as the theory of government that prevailed

* Parliamentary Debates: House of Commons, April 5, 1911.

in the nineteenth century held sway. For that limited the functions of the State, and thereby limited the field within which the influence of Great Britain on Irish public expenditure could operate. All that is changed now. We are entering on a new era in which quite different views of the functions of government and of the employment of public revenue will prevail, and of which Old Age Pensions may be said to be the first fruit. That single measure has imposed on Ireland a charge that at one stroke has swept away the margin of Irish revenue over Irish expenditure, and left her with a deficit. But further legislation of the same tendency may be foreseen, schemes that are sure to be framed with reference to the needs of Great Britain with its vast preponderance of industrial population, and which, if applied to Ireland without adaptation, must inevitably lead to grievous waste of public money, if not also to serious demoralisation of Irish life. For these reasons we are emphatically of the opinion expressed by Lord Farrer, Lord Welby, and Mr. Bertram Currie, in their separate Report as members of the Childers Commission, that, quite apart from any question of a change in the political relations between Great Britain and Ireland, some radical change in the financial relations is imperatively required in the interest of both countries alike, of Great Britain no less than of Ireland.

Part II.—Distinction between "Irish Local Expenditure" and "Imperial Expenditure in Ireland."

PRINCIPLE OF CLASSIFICATION OF EXPENDITURE.

16. For two reasons all expenditure by government in Ireland must have about it an imperial element of some kind: first, because, as elsewhere in the United Kingdom, it is imposed by authority of the Imperial Parliament and is met out of a common imperial fund; and secondly, because, with countries so long and so intimately associated as Great Britain and Ireland, what is undertaken in one country by Government for the well-being of that country can never be wholly a matter of indifference to the other country, and must therefore, to a certain degree, be regarded as having an interest for the whole kingdom, that imparts to it something of an imperial character. This latter consideration presents itself with so much force in the case of certain items of expenditure incurred in Ireland and *for* Ireland, that some hesitation may be felt in placing them wholly in the category of Local Expenditure. But a classification that is to serve usefully for any practical purpose must be made by reference to the predominant characteristic of the things classified, leaving other features to be taken into consideration and allowed for when the classification comes to be put to any particular use. For the purpose of classifying expenditure connected with Ireland under the two heads of "Irish Local Expenditure" and "Imperial Expenditure in Ireland," it is not easy to devise a test that will serve for universal application. But, on the whole, it appears to us that the formula which goes furthest to cover all the circumstances which have to be taken into account is to say that each item should be scrutinised so as to see whether, were there not now, nor ever had been, any intimate association between Great Britain and Ireland, the expenditure would, or would not, have still been incurred by Great Britain and still have had to be met by Great Britain. If it would, then it is Imperial Expenditure; if not, it is Irish and Local. Take, for example, Military Expenditure in Ireland. It probably cannot be said that, without the association with Ireland, the numbers or cost of the British Army would be materially less than they are now; and on that assumption Military Expenditure in Ireland falls to be classified as Imperial, and not as Local. Applying the test in this way, we find that it excludes from the category of Local Expenditure many and large payments that are made in Ireland, such as the charges for naval and military establishments, and also all general debt charges; but assigns to that category every outgoing on services which are in the main Irish services. This principle is the one that has, in fact, been followed by the Treasury in compiling the White Paper, and to the classification resulting from it objection has been taken by some of our witnesses and others on grounds that do not appear to us to be valid. They seem to have thought that to include an item in the column of Irish Expenditure prejudges the question whether or not, in the event of a dissolution of financial partnership, Ireland should become liable for the whole cost of the service represented by the item. This, however, is a mistake. All that inclusion of a service in the Irish column means is that the service is, as a matter of fact, an Irish service. To have sought to convey more

than this, to have qualified the figures by reference to circumstances connected with the origin of an expenditure or with subsidiary purposes that it may subserve, would have been inconsistent with the principle on which an account or a statistical statement must be drawn up. In neither is it legitimate to arrange figures so as to show not merely facts, but also the deductions that the framer may desire to see drawn from the facts. The presentation of facts and the drawing of deductions from them are separate processes which should, as is done on the revenue side of the Treasury White Paper, be kept distinct, or error and confusion are certain to result. Herein, indeed, may be found the source of most of the controversy over the Treasury paper. Too often its critics have made the mistake of regarding the "as contributed" portion of the revenue side as an account, when it is, and purports to be, only an estimate; and of treating the expenditure side as an estimate, when it is really an account.*

IRISH CONSTABULARY VOTE.

17. We may illustrate our meaning by reference to the vote for the Irish Constabulary, which is a typical example of the class of expenditure on which difference of opinion arises. It is commonly alleged that the Irish Constabulary is in no way comparable with the ordinary police forces of Great Britain—either in its origin, its constitution, or its purposes. It is sometimes described as though it were an army of occupation rather than a civil police force; at other times it is spoken of as though its principal duties were to collect revenue and agricultural statistics. There is an element of truth in such contentions, and at any rate the force is one that is under the sole control of the central government, and is paid for out of imperial funds, instead of being charged on rates. But the conclusions drawn from these features of the force are apt to be exaggerated, and the truth seems to us to be that at the present time the only essential difference between the Irish Constabulary and the ordinary local police forces of Great Britain lies in this, that besides having to control the common elements of disorder it has to contend with two sources of disturbance peculiar to Ireland (or to certain parts of it), viz., sectarian animosities, and chronic dissatisfaction with the political status of the country. Of these the latter ought to disappear with the establishment of local autonomy, and one of the two main causes that give a special character to the Irish Constabulary would be removed. The other may remain. But for it the responsibility will rest and must continue to rest wholly on Ireland. Meanwhile it is clearly impossible to assess in exact figures the relative values of the local and imperial elements of the force, and in compiling the White Paper the Treasury could not do otherwise than place the whole of the item in the Irish column of expenditure.

LAND PURCHASE CHARGES.

18. Another item which excites protest against its inclusion in the Irish column is the amount (190,000*l.* in Estimates for 1911-12) required to meet the charge on bonus stock issued under the Land Purchase Acts of 1903 and 1909. The case has been argued as though the arrangement of 1903 in respect of the "bonus" represented a free gift to Ireland from Great Britain of the whole amount of the bonus. As a free rendering of the sense of the transaction this account of it may be allowed to be approximately correct, because, under existing circumstances, whatever the cost of the bonus to public funds, all but a small percentage of it would fall on the British taxpayer. But it does not represent with technical accuracy the nature of the transaction, which really was one under which the general taxpayer of the United Kingdom, Irish as well as British, undertook to provide a sum in cash (originally estimated at 12,000,000*l.*, but now expected to reach at least 15,000,000*l.*) in order to facilitate the transfer of Irish land from landlords to tenants. It was a gift not from Great Britain to Ireland, but from the community of the United Kingdom to the owners and occupiers of land in Ireland. Viewed in this light, it differs in no material respect from any other Irish charge imposed on the Exchequer of the United Kingdom by the authority of Parliament.

OBJECT OF CLASSIFICATION FROM POINT OF VIEW OF THIS INQUIRY.

19. From the point of view of the present inquiry, it seems to us that the purpose of classifying expenditure as local or Imperial must be regarded simply as a means of

* Some small portions of one or two items (e.g., Treasury and Home Office) are estimated, but their total amount is quite insignificant.

supplying the material for determining what charges must be provided for in Imperial and Irish votes respectively, in the event of the grant of local autonomy to Ireland. It will be seen how we contemplate dealing with this matter when we develop our proposals under the third section of our reference.

Part III.—Finance of an Irish Government.

PREVIOUS SCHEMES.

20. On entering upon this branch of our subject, it will be as well first to review previous schemes for revising the financial arrangements between Great Britain and Ireland, those of the Home Rule Bills of 1886 and 1893, and of the Irish Council Bill of 1907.

THE HOME RULE BILL OF 1886.

21. The financial clauses of the Bill of 1886 provided in effect that Ireland should be credited with the whole of the revenue "collected" in Ireland; that payments to the Imperial Exchequer aggregating 4,602,000*l.* per annum (of which 3,602,000*l.* was on account of Imperial charges and 1,000,000*l.* was to be a contribution to the cost of the Irish Constabulary) should be a first charge on such revenue; that for a period of thirty years these charges should not be increased, but might, under prescribed circumstances, be diminished; that the balance should be at the disposal of the Irish Government to meet the cost of local services; that duties of Customs and Excise should continue to be imposed and levied by authority of the Imperial Parliament only, but that all other taxes should be imposed and levied by the Irish Parliament. To exhibit the working of the scheme the following specimen account of revenue and expenditure was presented:—

REVENUE (collected in Ireland).			EXPENDITURE.		
I. Taxes.			I. Imperial Charges.		
	£	£		£	£
1. Retained by Imperial Government—			1. Contribution to Imperial Expenditure on basis of coefficient—		
(a.) Customs	1,220,000		(a.) Debt Charges	1,400,000	
(b.) Excise	4,500,000		(b.) Army and Navy charges	1,600,000	
		6,180,000	(c.) Civil Government charges	110,000	
2. Transferred to Irish Government—				3,242,000	
(a.) Stamps	600,000		2. Sinking Fund	360,000	
(b.) Income Tax, at 6 <i>d.</i> in the £	550,000		3. Fixed Constabulary, &c., charges	1,000,000	
		1,150,000	Total Imperial charges		4,602,000
II. Non-Tax Revenue.			II. Local Charges.		
(a.) Post Office	525,000		1. Civil Government charges (less Constabulary and Dublin Police)	2,510,000	
(b.) Telegraphs	107,000		2. Collection of Revenue (including Post Office)	894,000	
(c.) Crown Lands	42,000		Total Local charges	3,404,000	
(d.) Miscellaneous	344,000		Total Expenditure	7,946,000	
		1,020,000	Balance	404,000	
		8,350,000			8,350,000

OBSERVATIONS ON SCHEME OF 1886.

22. The cardinal point in this scheme was that the resources of the Irish Government were to depend on the amount of revenue "collected" in Ireland; which at that date exceeded by some 1,400,000*l.* the "true" revenue of the country. Clearly, therefore, the successful working of the scheme was primarily dependent on a

continuance of this excess of "collected" revenue over "true" revenue. Any marked change in conditions tending to a closer correspondence between the figures of "collected" and of "true" revenue would have destroyed the equilibrium of the forecast on which the scheme was founded. Seeing that the Imperial Government would, in the duties of Customs and Excise, have continued to impose and collect the principal taxes, the risk of any such change occurring may not, under that particular scheme, have been very great. Nevertheless, the danger is one that, in our opinion, constitutes an objection to the plan of taking "collected" revenue as a basis for calculating the revenue of an Irish Government that must always be of some weight in principle, and that would become of serious weight in practice, with a scheme which left but little of the field of taxation under the control of the Imperial Government. In the first place there is the general consideration that it is certain that the establishment in Ireland of an Irish Government responsible to an Irish Parliament will result in changes in the relations between the two countries in spheres other than the political. What form these changes may take it is impossible to predict. But that they will emerge cannot be doubted, and they might easily influence materially the arrangements of trade. Apart from this, however, there is in the present day a special consideration that cannot be ignored. The excess of "collected" revenue over "true" revenue in Ireland, on balance of all heads, is now over 1,500,000*l.*, and the excess on a single head, "Spirits," is also more than 1,500,000*l.* Now, it would be easy, under the bonding system, to introduce changes of practice that would result in most of the duty payments represented by this latter 1,500,000*l.* being made in Great Britain instead of in Ireland, and there are reasons which seem to us to make it highly probable that, under the new conditions, such changes would be introduced. It is a matter of common knowledge that "the Trade" feels strongly on the subject of the amount of taxation that now falls on the manufacture and sale of spirits. It is therefore to its interest to see that the amount of the taxation is clearly exhibited in the official statistics, and one may not unreasonably suspect that if the returns for Great Britain and Ireland ceased to be combined, the "Trade" in Great Britain would desire that those of Great Britain should not be diminished by a million and a-half of duty collected in Ireland on spirits sold and consumed on this side of the Irish Channel. For these reasons we think "collected" revenue must be discarded as a standard by which to fix the revenue of an Irish Government. It would place the finances of the Irish authority far too much at the hazard of circumstances over which it would be powerless to exercise control.

IMPERIAL CONTRIBUTION IN BILL OF 1886.

23. The contribution to Imperial expenditure (and the share of the National Debt assigned to Ireland) were placed in the Bill of 1886 at one-fifteenth of the whole. As the Bill did not go to Committee there was no full discussion of this ratio in Parliament. But, judging by Mr. Parnell's remarks in the debate on the second reading, and by subsequent experience, there can be no doubt that, had the Bill gone into Committee, it would not have escaped rigorous criticism; and the subsequent inquiry by the Royal Commission of 1894-96 has shown the practically insuperable difficulty of determining a ratio between British and Irish shares of expenditure on joint services that can claim any close approach to scientific precision or command any large measure of general assent. Although the objections to this feature of the scheme were not fully disclosed at the time, we think it should not be overlooked when examining the project with a view to its hearing upon any scheme now to be devised.

THE HOME RULE BILL OF 1893.

24. In connection with the Bill of 1893 there were two schemes for its finance—the one, that of the Bill as introduced into the House of Commons; the other, that of the Bill as amended in Committee. They differed essentially in principle, and must therefore be separately examined.

THE ORIGINAL SCHEME OF 1893.

The original scheme provided that the revenue from Customs, estimated at 2,400,000*l.*, should go to the Imperial Exchequer to cover the Irish contribution to Imperial expenditure and any excess over 1,000,000*l.* in the cost of the Irish Constabulary and Dublin Metropolitan Police. The Irish Government was to take all

the test of the "true" revenue of Ireland, and to defray out of it all local Irish expenditure, and to contribute a fixed sum of 1,000,000*l.* towards the cost of the Irish Constabulary and the Dublin Police, which were temporarily to remain Imperial services. Duties of Customs and Excise were to be regulated and collected by the Imperial Authority, which was also to fix postal rates. But all other taxes were to be imposed by authority of the Irish Legislature. These arrangements might after fifteen years be subject to revision, "in pursuance of an address to Her Majesty from the House of Commons or the Irish Legislative Assembly." The following specimen account of receipts and expenditure of the Irish Government was drawn up to show the working of the scheme:—

<i>Receipts.</i>			<i>Expenditure.</i>		
1. Excise (true revenue, exclusive of licences)	£	3,920,000	1. Civil government charges other than Constabulary	£	3,210,000
2. Local taxes—			2. Collection of Inland Revenue		140,000
Stamps			3. Postal Service		790,000
Income tax			4. Contribution to Irish Constabulary		1,000,000
Excise licences					5,160,000
3. Postal revenue		740,000	Surplus		500,000
4. Other non-tax revenue		205,000			
Total		5,660,000	Total		5,660,000

OBSERVATIONS ON THE ORIGINAL SCHEME OF 1893.

25. This scheme was, in our opinion, much superior to its predecessor, and superior, too, we may say in anticipation, to the one that eventually took its place. It disposed of the difficult question of the Irish contribution to Imperial expenditure in accordance with the simple logic of facts, and without reference to the insoluble problems of relative taxable capacities or of historical obligations—(insoluble, not in the sense that no answer to them is possible, but because so many plausible answers are possible that the number of solutions threatens to equal the number of solvers)—and, except for some transient ambiguity in the position of the Police services and for the difficulty of determining "true" revenue, it would have provided a clear-cut line of demarcation between Imperial and Irish finance. Each authority would, in its own well-defined field, have imposed, levied, and expended the taxation for which it was responsible, and there would have been no need for nice adjustments of their respective obligations. It must, however, be admitted that the simplicity of the arrangement was more apparent than real. For we now know that the exact ascertainment of "true" revenue is, with existing machinery, vastly more difficult than seems to have been realised in 1893. Still, the plan did avoid many difficulties, and regret may be felt that an error in the estimates on which it was based led to its abandonment. It was found that the revenue from Excise had been over-estimated by some 360,000*l.*, and in consequence the surplus of 500,000*l.* shown in the specimen account would have been reduced to an insufficient amount. It was therefore decided to proceed on quite new lines.

THE SECOND SCHEME OF 1893.

26. The second scheme provided that the "true" revenue of Ireland should be apportioned as to one-third to the Imperial Authority and as to two-thirds to the Irish Authority; that the one-third should cover Ireland's contribution to Imperial expenditure, together with one-third of the cost of the Irish Police Forces; that with the two-thirds Ireland should meet all other local charges; that the imposition and collection of all taxes should remain for six years with the Imperial Authority, the Irish Authority meanwhile having only residuary powers of taxation; that at the end of six years the arrangements should be revised as regarded the Irish contribution to Imperial expenditure, and Ireland given a free hand as regards the imposition of all taxes other than duties of Customs and Excise, and as regards the collection of all taxes other than duties of Customs; and that the "true" revenue from Customs and Excise should be ascertained by a Joint Committee of the Treasury and the Irish Government. The working of these arrangements was exhibited in the following specimen account of Irish revenue and expenditure:—

Irish Revenue, 1892-3.			Total Estimated Revenue of Ireland.	Amount Payable to Irish Exchequer.	Irish Expenditure, 1892-3.		
			£	£	£		
1. Customs—					1. Civil Government Charges		
Revenue collected in Ireland ..	2,136,000				(exclusive of Constabulary, &c., Charges, and Salary of Lord Lieutenant, but inclu- sive of local charges met out of Local Taxation Revenue)		
Add estimated allowance for duties paid in Great Britain on articles consumed in Ireland ..	266,000		3,402,000	1,601,000	3,128,000		
2. Excise—					2. Constabulary, &c., Charges		
(a.) Spirits—Revenue col- lected in Ireland ..	4,312,000				(1,459,000), two-thirds of Estimated Deficit on Postal Accounts		
Deficit amount of duties ascertained to be paid in Ireland on spirits consumed in Great Britain ..	1,872,000				973,000		
	2,340,000				82,000		
(b.) Beer—Revenue col- lected in Ireland ..	811,000				4,148,000		
Deficit estimated allow- ance for duties paid in Ireland on beer consumed in Great Britain ..	187,000						
	624,000						
(c.) Licence Duties collected in Ireland ..	194,000		3,468,000	2,039,000			
3. Stamp Duties collected in Ireland			707,000	471,000			
4. Income Tax collected in Ireland			532,000	368,000			
5. Crown Lands—Amount estimated to be due to Ireland in respect of			65,000	43,000			
Total			5,784,000	4,522,000	Surplus		
Miscellaneous Irish Receipts ..			138,000	138,000	512,000		
Totals			5,922,000	4,660,000	Total		
					4,660,000		

OBSERVATIONS ON SECOND SCHEME OF 1893.*

27. This second scheme made for the question of imperial contribution a settlement which was of the same practical, if somewhat arbitrary, character as that in the original scheme. But it was much less satisfactory, because it involved an apportionment of all Irish revenues, instead of assigning to imperial services a single head of revenue. Further, it made the arrangements dependent on the ascertainment of the whole, not merely of a part of the "true" revenue. Knowing what we do now of the intricacies of this matter, it seems certain that great difficulty would have been found in practice from this requirement of the scheme. Lastly, the scheme left too much for subsequent revision, and for revision at too early a date. This question of revision seems to us of extreme importance in connection with any scheme of the kind, past or future, and as it shows itself in specially conspicuous fashion in the second scheme of 1893, we will use this as the occasion on which to draw attention to some aspects of the matter which, in our opinion, ought not to be overlooked.

GENERAL OBSERVATIONS ON REVISION.

28. In making arrangements for any new departure of a complicated kind there is naturally a temptation to escape from the difficulty of solving embarrassing problems by postponing their solution to some future date. Under certain circumstances there may be no other alternative, and always there is the hope that increase of knowledge, or even the mere lapse of time, may eventually aid in the solution. But in this particular case it is certain that, however great may be the difficulties encountered at the original settlement, those that will surround revision will be incomparably greater. At the original settlement there can be no parity of status between the parties to the contract. In fact, one of the two will not yet be in corporate existence. It will be

merely represented by the individuals of whom it will eventually be composed, and by those who sympathise with them. The other party will be in a position of such preponderating authority that it will practically be able to dictate the terms on which the settlement must be accepted, or the whole enterprise be foregone. At the time of revision the position will be entirely changed. There will then be two parties, each fully clothed with a definite authority, constitutionally or legally conferred, and failure to reach agreement will not be susceptible of any such short method of solution as might be resorted to at the original settlement. It follows that it is extremely undesirable to leave open for future determination any questions of a kind that would demand settlement as a condition of the continued working on constitutional lines of the machinery set up in the first instance. It would be unwise, for example, to leave as a subject for revision some matter in respect of which the working of the original compact would be wholly arrested, unless the Irish Government could be compelled to take action in some direction, however little it might approve of the course proposed. By the Act constituting that Government, it can be restrained from action in specified directions, by depriving of legal validity any enactment of the Irish Parliament, or any proceeding of the Irish Government that is outside of, or contrary to, their defined powers. But there is no means, short of the employment of force in the last resort, by which an independent legislature or executive can be compelled to do something positive against its will.

AUSTRO-HUNGARIAN EXPERIENCE.

29. We may illustrate our point by recent experiences in the working of the Austro-Hungarian constitution of 1867. There the funds required to meet imperial charges are provided by appropriating to them the produce of the Customs, which is a federal revenue; and for such further amounts as are needed, contributions out of other revenue are payable by the two countries in ratios that are determinable at intervals of 10 years by "Delegations" representing the Austrian and Hungarian Legislatures respectively. On each occasion of revision the struggle between the two parties has been long and acrimonious, and has not been confined to the particular issue of a settlement of the ratio. But in 1897 things came to a complete deadlock. During the whole of 1897 and 1898 the Quota Delegations failed to come to an agreement, and the settlement which was at last reached, late in 1899, testifies to the keenness of the contest in the unwieldy fractions which disfigured the agreed quotas of 66 $\frac{2}{3}$ per cent. for Austria and 33 $\frac{1}{3}$ per cent. for Hungary. Meanwhile matters were even worse elsewhere. To meet the difficulty arising from the failure of the Quota Delegations to determine the respective contributions before the date at which the *Ausgleich* of 1867 would expire, the two Governments proposed to extend its arrangements provisionally until differences were composed. But this was met in the Austrian Parliament by such persistent obstruction that by the end of 1897 the *Ausgleich* had not been prolonged nor the Customs union renewed, and the Government had to proclaim the necessary measures by Imperial warrant. It was not until the year 1907 that the constitution resumed its normal working, and in the interval, or for a considerable part of it, the two Governments were compelled to exercise an extra-legal authority in carrying on the business of the country. Having regard to these considerations we venture to lay down the proposition that nothing should be left over for subsequent revision, unless it be a matter on which, when the time for revision comes, an agreement could, if need were, be postponed for a considerable time without necessarily entailing an interruption in the normal working of the machinery of the constitution.

THE IRISH COUNCIL BILL OF 1907.

30. The Irish Council Bill of 1907 provided for the establishment of an Irish Council, partly elected and partly nominated, to which, subject to the supervision of the Lord Lieutenant, was to be entrusted the general control and direction of certain Irish administrative departments, including Public Works. To meet the expenditure on these services annual sums, of such amounts as might be approved by the Imperial Parliament, were to be charged on the Consolidated Fund, for successive periods of five years, during which the amounts were to remain fixed—subject presumably to an implied understanding that if Parliament altered materially the character and cost of the assigned services during the quinquennial period it would provide also for any

increased charge that would be entailed (e.g., Old Age Pensions). The departments to be placed under the authority of the proposed Council were the following:—

The Local Government Board for Ireland;
 The Department of Agriculture, &c.;
 The Congested Districts Board;
 The Commissioners of Public Works;
 The Reformatory and Industrial Schools;
 The Registrar-General;
 The Commissioners of National Education;
 The Intermediate Education Board;

and the annual sums to be assigned during the first quinquennium were placed at a total of 4,164,000*l.*

OBSERVATIONS ON IRISH COUNCIL BILL.

31. The scope of the measure was quite different from that of the Bills of 1886 and 1893. It contemplated no change in the political relations of Great Britain and Ireland, nor any radical change in their financial relations. It was merely a measure by which, while the political and financial partnership between the two countries would remain unimpaired, administration in Ireland would be to some extent decentralised, and its conduct entrusted in a larger degree than before to local agency. Accordingly it is not to be expected that the Bill can offer much in the way of positive suggestion for the finance of a measure giving full local autonomy to Ireland. Nevertheless, instruction may be drawn from it, or rather from the system on which its finance was modelled—the Indian system of Provincial Settlements. On this we received interesting evidence from Sir Steynning Edgerley, a member of the Council of the Secretary of State for India; and by the courtesy of the Secretary of State we have been permitted to peruse important correspondence that has passed recently between the Government of India and the India Office on the subject of developments of the system.

THE INDIAN PROVINCIAL SETTLEMENTS.

32. The institution of Provincial Settlements in India is described by the Government of India as representing "an attempt to solve a problem which arises wherever there exists a local government in complete or partial subordination to a central authority." The problem as it presents itself in India is, however, very different from that with which we have to deal. In India it resolves itself almost wholly into a question of the amount of the contribution which each province should make towards the expenses of the central government, because the great bulk of the revenues of India being collected in, and credited in the accounts of, the various provinces, the question for solution is how far each province should surrender revenue in order to provide the central government with the funds it requires; whereas with Ireland the more immediate question is how to provide the "province" with funds for local purposes out of a central treasury. Again, in India the local governments are in complete subordination to the central government, whereas with the Ireland that is to be, the local government will be in subordination to the central authority to a very limited degree. Yet, even so, the experience of India is instructive. Sir S. Edgerley informed us that the framing of an original settlement was a matter of much difficulty, and gave rise to acute controversy between the provincial and central governments. As an illustration, he mentioned that on the last occasion of the making of a settlement with Bombay the Government of India had finally to abandon correspondence, and to send a representative to Bombay with a commission to settle terms on the spot. Further, he told us that the system of revising settlements periodically was found very unsatisfactory, not merely because of the renewal of strife, but also because the approach of revision created a temptation to inflate provincial expenditure, with a view to an increase in the next assignment; and that in consequence it had now become the practice to give to settlements as far as possible a permanent, or quasi-permanent, character. It seems to us that if this is the experience of arranging a revenue contract in a case where the two parties represent only different aspects of one and the same authority, and where official zeal is the one and only source of conflict, the "contract system," as it may be compendiously called, offers but little attraction in a case where the elements of controversy abound, and where neither of

the parties is in complete subordination to the other. The contract system may take many shapes. It may take the form of a lump sum assignment, as in the Irish Council Bill, or it may take the form of the assignment of one or more given heads of revenue, or of painfully computed percentages thereof. But in each and every case it involves an intricate and laborious balancing of competing claims, and to all alike therefore the difficulties we have indicated must apply. If the assignment were fixed with reference to existing conditions, within five years those conditions would have changed; if the contract of 1800 were taken as a basis, not only was it tainted in its origin and questionable in its equity, but its very meaning and effect are and always have been disputed; while if natural justice were to be the criterion, the prospect is extremely remote that general agreement could be reached on the propositions that it would be necessary to lay down as a starting point.

MEANING OF CHANGE IN RELATION OF IRISH LOCAL EXPENDITURE TO IRISH REVENUE.

33. In looking back on the schemes of 1886 and 1893, the fact that stands out with the most striking prominence is the great change that has taken place in the relation between Irish local expenditure and Irish revenue. In 1886 Ireland's revenue exceeded her expenditure by well over 2,000,000*l.*; in 1893 the surplus had shrunk to less than 2,000,000*l.*, while now it has been replaced by a deficiency. In 1910-11 her local expenditure exceeded her revenue by over 1,000,000*l.*, and in the current year will, on the Estimates as presented to Parliament, exceed it by over 1,500,000*l.* The significance of this it is hardly possible to overrate. In the first place, it is an impressive commentary on the working of the system of complete fusion of British and Irish finance, on some tendencies of which we have dwelt in paragraphs 12-15. But it also profoundly affects the problem of the financial arrangements under any future Home Rule Bill. It is not merely that figures have changed; it means that a material change in the attitude of the British tax-payer towards the question will have to be reckoned with. So long as there was a balance of some kind of Irish revenue over Irish expenditure that might be applied to general expenditure, the question of an Irish "contribution" was one merely of degree, and it was always possible that, from weariness or indifference, the British tax-payer might not care to contest with keenness the arguments that might be put forward to show that the amount of the "contribution," though really determined by necessity, was as much as, or even more than, he had any right to expect. Now the position of the parties has been reversed, the defence has become the attack, and, in resisting the direct attack upon his purse, it is certain that the British tax-payer will be considerably more on the alert than he was before. The moral to be drawn from this seems to us to be that, in the endeavour to arrange the terms of Irish finance, a settlement would probably prove impracticable, and therefore should not be sought, on the basis of a common acceptance of some possible adjustment of the claims which arise out of past history or relative theoretical resources; and that existing and obvious facts must alone be taken into account. To take for example the doctrine of "restitution" which has been advanced in certain quarters. We cannot suppose that under any circumstances this doctrine would be likely to obtain much consideration in the field of practical politics. It touches national pride too closely, and, moreover, old wrongs cannot be compensated without creating new ones. But when it touches not only national pride but also the national pocket, its prospects of acceptance become manifestly hopeless. This, however, is a most controversial matter, and we will not pursue it further.

SUMMARY OF PROVISIONAL CONCLUSIONS.

34. Having concluded our review of previous schemes, it may be convenient at this point to bring together the several conclusions which we have provisionally drawn from them and from an examination of the present financial position of Ireland. They are as follows:—

(i.) That the "true" revenue of Ireland cannot, under existing circumstances, be ascertained with precision, and that special machinery would have to be set up if an exact determination of its amount were required.

(ii.) That, nevertheless, if taken merely as an estimate, the figures of "contributed" (or true) revenue given in the Treasury White Paper are sufficiently

approximate to warrant the statement that the expenditure of Ireland in 1910-11 exceeded its revenue by more than 1,000,000*l.* (while for the current year the excess will be more than 1,500,000*l.*).

(iii.) That the revenue "as collected" in Ireland would not be a safe standard by which to determine the funds to be placed at the disposal of an Irish Government.

(iv.) That the "contract system" cannot, under any form, be recommended as a method of providing an Irish Government with funds.

(v.) That any settlement should leave as little as possible open for revision at a future date.

(vi.) That the change that has taken place since 1886 and 1893 in the relations between Irish local expenditure and Irish revenue is of extreme significance in its bearing on the present inquiry.

These represent some of the principal considerations which have influenced the recommendations we are about to make on this part of our reference.

IRISH CONTRIBUTION TO IMPERIAL EXPENDITURE.

35. Under normal conditions the expenditure for which an Irish Government would have to provide would fall under two distinct heads, viz. :—

(A.)—Irish Local Expenditure.

(B.)—Contribution to Imperial Expenditure.

The local expenditure of Ireland already exceeds her local revenue, and it could not be contemplated that in making arrangements for granting her political autonomy she should be saddled with liabilities that would impose on the Irish Government the obligation to make an increase of taxation its first legislative measure. This being so, it seems to us that it would not be wise to endeavour at this stage to define the standard by which eventually the measure of Ireland's contribution to the common expenditure of the realm should be fixed. The data on which a scheme would have to be framed would almost certainly be largely obsolete by the time when it could be brought into operation. For this reason we do not propose to make any recommendation as to the character or the extent of a future Irish contribution. At the same time we are of opinion that, in the contemplated settlement, there should be an emphatic assertion of the principle that, when able, Ireland should bear a properly proportioned share of the common expenses of the country as a whole. We ourselves feel confident that the obligation will be readily recognised by all responsible exponents of public opinion in Ireland, and we believe that, if the arrangements in regard to local expenditure are made on ungrudging lines, the Irish people may be trusted to make a prompt and characteristically generous response when the time comes to claim from them a contribution to Imperial expenditure, or in the event of any great national emergency. In any case it would not be difficult to devise guarantees against an undue postponement of a settlement of the question, as, for example, by making Ireland's representation in the Imperial Parliament in some measure dependent on her contributing to the cost of common services.

PRINCIPLE OF PROPOSED SETTLEMENT.

36. We come now to the really crucial question on which we have been invited to advise. We have discussed the several proposals relating to it that have been made on previous analogous occasions, and we have stated certain general principles and considerations which, in our opinion, must govern any settlement of the kind. After carefully reviewing all these we have come to the conclusion that there is only one way in which all the requirements of the situation can satisfactorily be met, and that is by conferring on the Irish Government full powers over the raising of revenue as well as over expenditure in Ireland, subject only (a) to such reservations as may be necessary to guard against the raising of tariff questions that might prejudice relations with foreign Powers, or trade and commerce between the two kingdoms, and also (b) to such provisional arrangements at first starting as may be required to balance the Irish budget. We are well aware that this conclusion may seem surprising to many, and may be distasteful to not a few. But we believe that a dispassionate study of the problem will, in spite of any predispositions to the contrary, lead others, as it has led us, to the conviction that no other arrangement offers promise of an harmonious or a convenient settlement, and that the advantages of the proposal far outweigh the

objections to it. To us the advantages appear to be real, practical, and of a weight overwhelmingly preponderant; the objections to be mainly sentimental.

EXPENDITURE UNDER PROPOSED SETTLEMENT.

37. We have already indicated that the present cost of governmental services in Ireland exceeds by a substantial amount the yield in Ireland of existing taxation, and, seeing that an increase of taxation to cover the deficit cannot be contemplated, it follows that some subsidy from Great Britain will be necessary for a time. This interposes an obstacle to the immediate application in all its fulness of the principle we advocate. But we think it important that the temporary arrangements which it will be necessary to make should interfere as little as possible with the free play of that principle which must, in our opinion, ultimately govern the relations of an Irish Government to Irish expenditure. Shortly stated, the position is this. As a mere matter of necessity the liability of an Irish Government must, at first starting, be reduced within narrower limits than those of existing local expenditure. But, apart from the arithmetical necessity of reduction, there are grounds of equity on which, in any case, it would have been only right that an Irish Government should not be saddled with liability for the whole of the existing local expenditure. On these facts the question arises whether the amount of the subsidy that Great Britain must for a time provide in aid of Irish resources should be measured by what we have called the arithmetical necessities of the situation, or by an estimate of the amount of relief that Ireland might equitably demand from the burden of existing local expenditure. We prefer the former alternative, and for many reasons, of which the first is really in itself decisive, viz., that, for practical purposes, the figure which it produces is the figure which must eventually be adopted, whatever method of calculation be followed. Supposing, for example, we were to take certain services in which an Imperial element is more especially conspicuous, such as—

- (a.) The Land Commission,
- (b.) The Constabulary,
- (c.) Old Age Pensions,
- (d.) Post Office,

and were to endeavour to appraise the value of the Imperial element in each, is it not manifest that the difficulties of calculation would be so great, the room for difference of opinion so wide, that while we ourselves, or any other body of inquirers, might by a process of give and take arrive at some agreed figures, the result could not be such as would be certain to command general assent. Further, unless the aggregate of the sums finally agreed upon should correspond closely with the amount that the needs of the Irish Government demanded, the labour and the friction would have been incurred to no purpose, because if, on the one hand, the aggregate exceeded the amount required it would not be accepted by Great Britain, while if it fell short it would not be accepted by Ireland. The circumstances of the case are such that Great Britain cannot be expected to give more than is strictly necessary; Ireland cannot be asked to accept less. A further advantage of the procedure we recommend is that it would at once place the Irish Government in the position in which it must eventually stand of being solely responsible for the administration of Irish services. It does not seem to us to be desirable that there should be a probationary period, during which the cost of particular services, and, therefore, the responsibility for the regulation of those services, should be divided between the British and the Irish authorities. Provisional arrangements of that character would not be a satisfactory method of approach to the position which ought to be reached at the earliest possible date, that of an autonomous Ireland self-contained and self-sufficing so far as its own local administration and finances are concerned.

POWERS OF TAXATION OF IRISH GOVERNMENT.

38. It is common ground that an Irish Government must have substantial powers of taxation, not merely limited powers of imposing minor and residuary taxes. The Bills of 1886 and of 1893 alike agreed in this, and we do not suppose that anyone could be found to dispute the dictum of Sir Wilfred Laurier when, in debate in the recent Imperial Council, he said, "Now, if there is one system which I think is

indefensible, it is the creation of a body which should have the power to expend at its own sweet will without having the responsibility of providing for the revenue to carry on the expenditure." Therefore, the question at issue really resolves itself into this, not whether the Irish Government should have powers of taxation, but whether the powers of taxation which it must have should be more or less restricted. It is not a question of all or none, but of less or more. In order to form a judgment on this question, it is necessary to consider carefully the relative advantages and disadvantages of the two alternatives.

GRANT OF FULL POWERS OF TAXATION: OBJECTIONS DISCUSSED.

39. We will deal first with the objections that may be raised to the grant of complete powers of taxation.

(i.) It may be said that it will break up the fiscal unity of the realm. That is partly true; but the statement requires qualification.

In the first place, it does not follow that the grant of full powers of taxation to Ireland breaks up the true unity of the realm in matters essential. That unity consists in having one King, one army, one navy, one currency, one policy in relation to foreign States, and in any other matter of paramount importance to the United Kingdom of Great Britain and Ireland. As Mr. Gladstone said in 1886: "The unity of the Empire rests upon the supremacy of Parliament and on considerations much higher than considerations merely fiscal." But the justification of the assertion that fiscal unity is not essential to the true unity of the realm does not rest merely on the authority of opinion however high. It rests also on the historical fact that when in 1800 federation between Great Britain and Ireland was replaced by the Union, fiscal unity was not considered an essential condition of the change, and did not, in fact, follow for many years. Between 1800 and 1817 there was a British Exchequer and an Irish Exchequer; there was a Chancellor for Great Britain and a Chancellor for Ireland. Each brought in his separate and independent Budget. In almost all cases the taxes were different. It even happened that particular duties were lowered in one Budget which were at almost the same time raised in the other Budget; for instance, the duty on home-made spirits in Ireland was reduced in 1810 from 4s. 1d. per gallon to 2s. 6½d., at which figure it stood in 1811, when the duty in England was raised from 8s. 0½d. to 10s. 3d. There were separate Custom-houses on both sides of the Irish Sea to collect those separate duties. After the abolition of the Irish Custom-house in 1825 different duties continued down to the period 1853-60; for example, the duty on spirits in Ireland from 1813 to 1853 was 2s. 8d. a-gallon, while in England the duty was 7s. 10d. In 1853 the Irish duty began to be raised, and finally, in 1858, Mr. Disraeli effected a complete equalisation of the spirit duties in England and Ireland at 8s. per gallon. During that long period special machinery was at work to collect and regulate those different rates of duties in the two countries. There can surely be no valid objection on the score of unity to return under a Home Rule settlement to the system which existed for sixty years after the passing of the Act of Union in a state at first of supreme and later of lessening activity. If Union could dispense with fiscal unity, *a fortiori* can any less close form of association.

In the second place, under the scheme which we propose the control of general fiscal policy will remain in the hands of the Imperial Parliament. To that extent the fiscal unity of the United Kingdom will be preserved. The Irish Government will have the power of imposing Customs duties, but only for the purpose of raising revenue. Any risk that relations with foreign countries or the interests of internal trade between Great Britain and Ireland might be endangered can and should be guarded against.

That risk was not considered serious by the three Royal Commissioners of 1894-6, whom we have more than once quoted. They doubted whether Irishmen, if entrusted with their own finances, would attempt to raise fiscal barriers between the two countries, for they were satisfied that Ireland and not Great Britain would be the loser by such a policy; and they pointed out truly that the market of Great Britain is of infinitely more importance to Ireland than that of Ireland to Great Britain. The opinion then expressed has been greatly reinforced by the subsequent march of events. In 1896 the supply of fresh beef and mutton, of butter and eggs from Ireland was almost a necessary of life to the English consumer. The importation of Australian, Siberian, and Argentine butter, of frozen mutton and chilled beef, was still in its infancy. Denmark has in the interval become a formidable rival of Ireland in the supply of bacon and butter. Refrigerating chambers in the ocean steamers and

cold stores at the ports have rendered the English consumer independent of the Irish supplier. But if in the altered conditions of the world's food markets an element of risk to free trade between Great Britain and Ireland be still considered to remain, it must, we think, be guarded against. To obviate that danger, and also the danger of possible complications with foreign Powers, is a comparatively simple matter. All that would be necessary would be to impose on the Irish Government disabilities restraining it—

- (a.) From imposing duties of Customs that should differentiate between any one country and another; and
- (b.) From imposing a Customs duty on any article the produce or manufacture of Great Britain without likewise imposing a corresponding duty of Excise on any article of like nature and use produced or manufactured in Ireland.

If this latter provision were thought insufficient to prevent possible penalising of British goods, it might be further specifically enacted that it should not be within the competence of the Irish Government to impose any duties on goods which are the produce or manufacture of Great Britain, and which are *not dutiable in Great Britain*. It would of course be necessary that Great Britain should be subject to reciprocal obligations towards Ireland, and the effect would be to ensure the maintenance of complete free trade between the two countries.

(ii.) It may be objected that the freedom of communication, and in consequence the facilities for trade, between the two countries will be impaired. This, too, must be admitted for what it is worth. But does it really mean very much? It was found endurable at a time when the Custom House created between countries a barrier far more formidable than it does now. It can hardly be said that at the present day the Custom House seriously interferes with the convenience of travellers or of traders between the United Kingdom and the Continent. And, as regards authoritative opinion on the point, it should be remembered that of the members of the Royal Commission of 1894-6 two distinguished civil servants (Lords Welby and Farrer) and an eminent London banker (Mr. Bertram Currie), all of them men who, by their training, might be trusted not to be rash or revolutionary in matters of business, pronounced in favour of the change we are recommending.

Further, we may point out that, even if the Customs were to remain a unified Imperial service, it would still be necessary, with a system of Home Rule, to set up machinery that would be but little less irksome than a Customs barrier. With the establishment of autonomous government in Ireland, it is certain that accurate determination of the "true" revenue of Ireland would become a necessity sooner or later. It is no less certain that, with the means at present available, the "true" revenue cannot be ascertained with precision; and it follows, therefore, that a system of recording accurately the movements of dutiable goods between the two countries would have to be established, which, in its operation, would impose on traffic restrictions but little less onerous than those of a Customs cordon.

(iii.) It may be said that a Customs union is an invariable feature in every known example of a federation. That, too, we believe to be true. But where the States included in a formal federation have contiguous boundaries, where they lie, so to speak, within a ring fence, a Customs union becomes a practically indispensable condition of federation; it is the need for it, indeed, that has commonly provided a leading motive for federation. And, so far as we know, there is no instance of an important federation in which the geographical conditions are not substantially of the kind described. With Great Britain and Ireland the case is different, each country has its own coast, separated by an appreciable intervening space of sea. With them, therefore, a Customs union is not indispensable. Where a frontier is merely the result of political convention, the motive and operation of a Customs union, which is only one form of a political convention, must alike differ from those that arise where nature has determined the frontier by some effective physical barrier which no political contrivance can remove.

In addition, we may observe that in the case of every other federation the Customs revenue is, we believe, taken to provide funds for the Federal Government, and where the produce of taxation is taken for a non-local purpose, the objection that lies to the imposition within the State of taxation by an external authority is much less noticeable than where the local expenditure of the State has to be provided for in that manner. Applying this to Ireland it may be said that, if the Irish Government could dispense with all demand on its own Customs revenue, there would be much less objection to leaving the imposition and collection of Customs duties to the

Imperial Government. The whole range of Customs business would then lie outside the sphere of the Irish Government. But the Irish Government will need the whole of its Customs revenue, and that at once alters the position and brings into prominence the objection to raising revenue for Irish purposes by an external authority, and by duties of which the character and the amount will be determined, not by reference to Irish needs or predilections, but by reference to those of another and a differing people.

ADVANTAGES OF THE GRANT OF FULL POWERS OF TAXATION.

40. Turning to the advantages of granting full powers of taxation, together with full control of expenditure, we should say that they consist of the following:—

(i.) It would place the financial provisions of the contemplated measure in complete accord with the key-note of its general policy, which is freedom within its own sphere for Irish nationality.

(ii.) It would remove every point of financial contact that might engender friction between the two countries, and would thereby make powerfully for harmonious relations, and, more than anything else, would smooth the approach to the one outstanding question of an Imperial contribution.

(iii.) It would, in respect of local expenditure, dispense with all necessity for making an apportionment of liability between the two Governments on some historical or doctrinal basis—a process the difficulties of which we have already sufficiently indicated.

(iv.) It would call for no revision at some future date, so far as Irish local expenditure is concerned. All that would remain for subsequent settlement would be the contribution for Imperial purposes, and that question it would isolate, and so render solution less difficult.

(v.) It would put an end, once and for all, to the extravagance and waste that results from too close an assimilation of the scale of expenditure in Ireland to that of Great Britain—a result in which the British tax-payer has an interest exceeding that of his Irish partner in proportion as the British contribution to the common purse exceeds the Irish contribution.

(vi.) It would make the responsibility of the Irish Government for the administration of Ireland complete in all respects, and would get rid of all conflict of authority in every branch of the Government service.

It is a first principle of sound government that the same authority that has the spending of revenue should also have the burden, and not infrequently the odium, of raising that revenue. That one should have the unpopular duty of providing the means, and another the privilege of expending them, is a division of labour that leads to disaster. For over a century the Irish representatives in Parliament had not the power or the duty of raising or of expending the Irish revenue, but they had unlimited opportunities of pressing on the Treasury never-ending demands for fresh expenditure in Ireland. This condition of affairs was calculated to weaken the sense of responsibility in regard to public funds of the Irish people and of their Parliamentary representatives. Hence a strong tonic is now required to rectify an infirmity of long and slow growth. This view is insisted upon in the Report of the Royal Commission, 1894-6, signed by Lord Farrer and others (p. 51): "We believe that the expenditure of public funds cannot be wisely and economically controlled unless those who have the disposal of the public money are made responsible for raising it as well as spending it." "One sure method of redressing the inequality which has been shown to exist between Great Britain and Ireland would be to put upon the Irish people the duty of levying their own taxes, and of providing for their own expenditure." The lesson which it is required to bring home to the individual Irishman in concrete and palpable form is that, before any money can be expended by an Irish Government, he must first pay his share of that money in taxation. We believe that that lesson cannot be effectively taught if the Imperial Parliament retain the power of imposing or collecting Irish taxes.

(vii.) Lastly, our proposed system would throw on the Irish Government the responsibility of maintaining a proper relation between its expenditure and its ways and means, and of adjusting taxation to the economic needs of the country. The indiscriminate system of taxation has broken down. At the time of the passing of the Act of Union there was no organic difference in the conditions of the English and Irish peoples. Both were mainly agricultural communities, and each had a sufficient number of skilled workers to provide for

its own requirements. The population of Great Britain was almost exactly double that of Ireland. Both populations increased subsequently in nearly the same ratio for thirty or forty years. But the rise of the factory and the growth of industrialism have completely reversed the conditions. The Irish have been thrown back more and more upon the land, and the English have congregated more and more in the towns. From the point of view of direct taxation (Death Duties, Stamp Duties, Income Tax, &c.) the wealth of England has grown enormously, and continues to grow; while the wealth of Ireland has remained almost stationary. The tendency of fiscal policy is to relieve raw materials and food-stuffs, to remove or lighten the burden on small incomes, and to make compensation for the loss, as well as to provide for the growth of expenditure, by raising the rates of duties on the wealthy. That system works where the wealthy exist, but where they do not exist financial loss is incurred by removing or lightening the burden on the many, and the few are not forthcoming to make good the deficit. In the year ended the 31st March, 1910, the net capital value of estates in England, liable to Estate Duty and worth each over 500,000*l.*, was 35,643,245*l.*, and two-thirds of that large sum was liable to duty at 15 per cent.; in Ireland the total net capital value in that category of estates was no more than 62,835*l.*, being a fraction only of an estate. An examination of the lists of assessments to Income Tax and of annual values for rating reveals the same over-widening divergence between the wealth conditions of the two countries. We were told in evidence by the witnesses representing the Inland Revenue Department that the increased rates of duties in the Budget of 1909-10 yielded surprisingly little return in Ireland, and that, in their opinion, as long as the increase of rates was coupled with a system of relieving the taxpayers at the lower end of the scale the revenue of Ireland could not be augmented, no matter to what degree the rates of duties might be raised. As long as the revenue of Ireland responded to an increase in the spirit duties (as it did in the 'fifties), the indiscriminate system of taxation could work, but Ireland is rapidly ceasing to be a spirit-drinking, and is becoming, but not to an equivalent extent, a beer-drinking country.

LIMITED POWERS OF TAXATION.

41. In the grant of limited powers of taxation, on the other hand, we can see no advantages at all comparable to those we have enumerated above. Apportionment of revenue and obligations would still be necessary, and its difficulties would be aggravated rather than diminished by the fresh element of complication arising out of the presence of two taxing authorities instead of one.

APPLICATION OF PROPOSED PRINCIPLE.

42. It now becomes necessary to show how the principle we have advocated could be applied in practice, and what machinery would be required in order to meet certain special incidents connected with it. For this purpose it is necessary to make as close an estimate as is practicable of the expenditure which an Irish Government would have to meet, and of the revenue which existing taxes would produce in Ireland towards meeting it, and then to state how we propose to provide for the deficit. It is patent that it would be useless at the present moment to attempt to do more than to put forward approximate figures. In no case can an Irish Legislature and Executive come into being before 1913, and it would be sanguine to reckon upon their establishment before an even later date than that. We shall therefore content ourselves with taking as the basis of a specimen budget the figures of the latest issue of the Treasury White Paper—that for 1910-11—on which we shall make only such corrections as may be required (a) by alterations we consider may properly be made in the Treasury conversion of "collected" into "true" revenue; (b) by the special Budget circumstances of 1909-10; and (c) by material changes that can be foreseen as certain to occur in the expenditure within the next two or three years.

ESTIMATE OF EXPENDITURE.

43. The local expenditure of Ireland for the year 1910-11 is put in the Treasury Return at 11,344,500*l.*—say, in round figures 11,350,000*l.* The amount included for Old Age Pensions was 2,400,000*l.* But the estimate for 1911-12 provides some 2,800,000*l.* for Irish Old Age Pensions, the increase being chiefly attributable to the removal of the pauper disqualification, and it is certain that for some years to come

the cost of Old Age Pensions in Ireland must continue to grow, though not at any such rapid rate as from last year to this. On this account we make an addition of 600,000*l.* to the expenditure of 1910-11. In respect of Land Purchase, the Estimates for 1911-12 show an increase of 90,000*l.* over those of 1910-11 on account of Bonus and Excess Stock, and these items must also continue to grow as agreements for sale are arranged. On this head, therefore, we provide an addition of 300,000*l.*, which would make the amount included in our budget on account of Bonus and Excess Land Stock 635,000*l.* in all, as against a total eventual liability under these heads estimated to lie between 900,000*l.* and 1,000,000*l.*

Further, some allowance must be made for certain charges in respect of services, such as Board of Trade, Mercantile Marine, Civil Service Examinations, and Audit, the whole expenses of which are now shown in the "General" column of the Treasury White Paper, but for which, so far as they were continued in Ireland, an Irish Government would have to provide. Some provision must also be made for the expenses of the Irish Legislature and Ministry. So far as we can judge, we think that a sum of 50,000*l.* would cover the above miscellaneous expenses, and for the cost of the Legislature and Ministry we take a round sum of 100,000*l.*

We thus arrive at the figure of 12,400,000*l.* as a probable total of the local expenditure in 1913-14, computed as follows:—

						£
Expenditure of 1910-11	..	..	..	..	..	11,350,000
Add—						
For Old Age Pensions	..	..	..	..	..	600,000
" Land Purchase	..	..	..	..	..	300,000
" expenses of Legislature and Ministry	..	..	..	..	..	100,000
" Miscellaneous	..	..	..	..	..	50,000
Total	..	..	..	..	..	12,400,000

ESTIMATE OF REVENUE.

44. In the White Paper No. 220 of 1911 the "true" Irish revenue is given at 11,665,000*l.* On this figure we will first make such corrections as are required in consequence of amendments that seem to us to be called for on the adjustments made by the Treasury. The evidence we have taken leads us to the conclusion that it is not possible with the means at present available to suggest any amendment of the Treasury estimates of "true" revenue under the following heads:—

Customs and Excise—

Spirits.

Motor Spirit.

Sugar.

Tea.

Wine.

Inland Revenue—

Estate Duties.

Stamp.

Income Tax.

Land Value Duties.

Non-tax Revenue—

All heads other than Post Office.

While, with the exception of spirits, there is admittedly room for error in the calculations on which the adjustments have been made as between "collected" and "true" revenue under these several heads, we find it quite impossible to estimate what the margin of error may be, or even to surmise in which direction error may lie. The grounds for our conclusion may be gathered in detail from a perusal of the Minutes of Evidence, and we will here only mention those of most interest and importance.

SPIRITS.

45. We are satisfied that there is really no good reason to distrust the accuracy of statistics in regard to the removals of duty-paid spirits, the records of which constitute the foundation on which the estimates of "true" revenue under that head are built up. It is true that in 1893 it was found that the records were inaccurate. But until the occasion of the Home Rule Bill, no practical use had for long been made of the

statistics, and in a hard-worked department statistical records that serve no obvious purpose are apt to be treated with less care than those which affect the business of the department. What happened in 1893 led to much greater care in the maintenance and checking of the returns, and we consider, therefore, that the basis of the adjustments on the spirits head of revenue may be accepted as absolutely correct.

TEA.

46. We have found a very general impression to prevail that the revenue from tea in Ireland is understated in the Treasury Paper. The impression rests mainly on the well-established fact that the Irish nowadays are great tea-drinkers, but also to some extent on a supposed discrepancy between the Treasury figures and those of the statistics of Irish imports and exports published by the Department of Agriculture. As regards this supposed discrepancy, the witnesses from the Department of Agriculture whom we examined admitted that, when allowance is made from their figures for the tare of packages, there is no substantial discrepancy between the two departments; while, so far as general observation of habits is concerned, it is commonly too superficial to be accepted as a sufficient basis for a conclusion, and certainly not where it is contradicted by statistics. There are few people, for example, who would not be surprised to learn that the United Kingdom drinks more beer per head than Germany, or that, out of fourteen of the principal European countries, the United Kingdom comes tenth on the list as a consumer of spirits, drinking per head less than half of what Germany does, and but little more than half of what France drinks.* For these reasons we are not disposed to question the Treasury figure for tea.

INCOME TAX.

47. Several of our witnesses expressed doubts whether in making its addition to the amount of Income Tax "collected" in Ireland in respect of income derived from Ireland but likely to be charged to duty in Great Britain, the Treasury have not failed to take into account certain rather obvious examples of such income, viz., shares in Guinness's Brewery, the earnings of certain railways in Ireland that are the property of English companies, the profits of English Banks having branches in Ireland, and the dividends on Land Stock when payable at the Bank of England. We find, however, that these criticisms are not well founded, because, as a matter of fact, the profits from Guinness's Brewery and from Irish railways are all assessed and the duty collected in Ireland; while as regards Land Stock and Bank profits, these form parts of the very class of income which the percentage addition made in the White Paper is intended to cover. It is of course a question whether that percentage is adequate. But manifestly it would be wrong to make allowance both by a general percentage addition in respect of a whole class of income and also by a specific addition for particular cases in that class that it is possible to identify.

BEER AND TOBACCO.

48. On certain heads we are of opinion that the Treasury adjustments call for some modification. As regards beer and tobacco, the Board of Customs and Excise have been kind enough, for the purpose of our Committee, to institute a special inquiry into the movements of those commodities during the year 1910-11, with the result that the "true" Irish revenue from beer cannot be put for that year at more than 1,000,000*l.*, a reduction of 140,000*l.* as compared with the White Paper; while in the case of tobacco the special return shows that the true revenue is under-estimated in the Paper by as much as 200,000*l.*

COFFEE, DRIED FRUITS, &c.

49. The adjustments on the four minor Customs heads of cocoa, coffee, dried fruits, and "other articles" are made on the assumption that the consumption per head in Ireland is equal to the consumption per head in Great Britain—an assumption qualified in the case of coffee by some very imperfect returns obtained so long ago as 1890-91 from carrying companies. The total revenue ascribed to Ireland under the

* See House of Commons Paper No. 319 of 1911.

four heads taken together is just under 100,000*l.* But the assumption on which these particular adjustments have been made by the Treasury is so manifestly at variance with all experience that, in spite of what we have said in the paragraph relating to tea, we think that a deduction of, say, 25,000*l.* should be made from the Treasury estimate in respect of these four heads.

POSTAL REVENUE.

50. The Accountant-General of the Post Office informed us that a further and more careful scrutiny of accounts, made with special reference to our inquiry, had led the Postmaster-General to the conclusion that it would be right to make certain further adjustments as between Great Britain and Ireland, in addition to those that had already been made for the purposes of the White Paper; and that the net result of these would be to increase the revenue attributable to Ireland by about 50,000*l.* We accordingly propose to add that amount to the Irish Postal Receipts.

CORRECTION OF TREASURY ADJUSTMENTS OF REVENUE FOR 1910-11.

51. Thus the only variations that we consider necessary on the Treasury figures are the following:—

	£	£	-
Add—For tobacco	900,000		
„ Postal receipts	50,000		
		250,000	
Defect—For beer	140,000		
„ minor heads	25,000		
		165,000	
Net addition		85,000	

This brings the total figure for the year up to 11,750,000*l.*

CORRECTION OF REVENUE FOR 1910-11, WITH REFERENCE TO DISTURBANCES CAUSED BY BUDGET OF 1909.

52. On this total of 11,750,000*l.* a further correction must be made in order to eliminate the disturbing effects of the failure to pass the Budget for 1909-10 in the Session of 1909. On some heads of revenue this produced very little effect, but on the following, in order to arrive at the yield of the taxes for a normal year, we are of opinion, after consultation with the Revenue Boards, that the under-mentioned reductions should be made:—

	£
On Income Tax	850,000
On Estate Duties	200,000
On Spirits, British	310,000
On Spirits, Foreign and Colonial	35,000
On Liquor Licences	70,000
Total	1,465,000

Accordingly the figure of 11,750,000*l.* becomes reduced to 10,285,000*l.* as representing the probable yield in Ireland of existing taxes in a normal year at the present moment. Allowing for some increase in the yield, we may perhaps assume that in two or three years' time the total would reach 10,350,000*l.*

SUMMARY OF ESTIMATES.

53. We are now in a position to summarise the results of our several estimates as follows:—

	£
Irish local expenditure (as in paragraph 43)	12,400,000
Irish revenue (as in paragraph 52)	10,350,000
Estimated deficit	2,050,000

METHOD OF MEETING ESTIMATED DEFICIT.

54. It is clear that Ireland cannot herself be expected to meet this deficit. She must have help from the British Exchequer. For this there is the twofold justification that the present state of Irish expenditure has been largely determined by the exigencies of the financial partnership with Great Britain, and that Great Britain herself will benefit financially from the dissolution of that partnership. But from the nature of the case it is imperative that British aid be transient only, and that within a reasonable time an autonomous Ireland must be able to rely on her own resources. What is wanted, therefore, is some machinery that will provide adequately for the immediate emergency, without creating financial relations between the two countries that may involve difficult arrangements for their termination—something, in fact, in the nature of a terminable annuity that would automatically expire in course of time. This, we suggest, can be found in Old Age Pensions. The British Exchequer might take over liability for all Old Age Pensions that had been actually granted at the date when an Irish Government Bill should come into operation. The amount of the liability may be expected to be about 3,000,000*l.*; and it might even be charged on the Consolidated Fund of Great Britain, so as to avoid including any Irish services in the votes of the Imperial Parliament. This plan would have two great advantages. It would determine Great Britain's contribution by reference to the actual needs of the occasion, without any attempt to appraise her liability in accordance with theoretical considerations, and it would make her liability one that would vanish automatically within a moderate period of time.

COST OF FUTURE OLD AGE PENSIONS.

55. We do not overlook the fact that the plan will cast on Ireland a liability in respect of future Old Age Pensions that will grow somewhat rapidly, and that in time may reach a substantial amount. What that amount will be it is exceedingly difficult to estimate. In Ireland it is no mere question of mortality statistics and vital statistics, as in this country. There it is complicated by the influence of the famine on the birth and death rates between 1845 and 1850, by the subsequent outflow of emigration, and by the absence of registers of births and deaths prior to 1864. Dr. Falkiner, Superintendent of Statistics in the office of the Registrar-General for Ireland, informed us that he had devoted much time and thought to the subject, but had not been able to arrive at any satisfactory conclusion upon it. The next few years will, however, shed much light upon it. Meanwhile, if we were to hazard a guess, we should be inclined to suggest that the annual recruitment of the pension list might be from 20,000 to 25,000 for some years to come. This would mean on the present pension scale an accruing charge of from 250,000*l.* to 300,000*l.* a-year. But the total charge on Irish votes would not grow annually by that amount, as there would be some set-off through deaths of those on the new Irish list. But whatever the amount may be, we hold that it is not unreasonable to ask Ireland to accept the liability. It is of the essence of the proposed settlement that an obligation on Great Britain to contribute to Irish local resources has arisen out of the inflation of Irish expenditure due to the financial partnership with Great Britain. It follows that, unless increased taxation is to be imposed, there must be a first obligation on an Irish Government to reduce the inflation with as much promptitude as may be, and from what we have said in paragraph 13 it will be gathered that we regard Old Age Pensions as an item of expenditure on which reduction would be not only legitimate but desirable in the new conditions to be established in Ireland—of course, in respect of future pensions only. We fully recognise that reduction of public expenditure is a difficult and an unpleasant process; also that a liberal allowance of time must be made for it, if public faith is to be scrupulously kept, as it must be with all those in the employ of Government at the time of transfer, and in every other respect. But the dissolution of financial partnership will be made out of deference to the expressed wishes of Ireland, and we do not doubt that she is fully prepared to admit that her exodus must entail on her a sacrifice of some material advantages that she may have been deriving from the partnership. At the same time we also recognise that whether this accruing liability in respect of Old Age Pensions would or would not place an excessive strain on Irish finance, and endanger its equilibrium during the earlier years of Irish autonomy, is a question of figures that cannot be answered with assurance until the time comes for the actual settlement; and we therefore suggest that if it should then be

found that the aid we have recommended is insufficient, a second automatically expiring charge might be created by a transfer to the British Exchequer, in whole or in part, of the liability for the pensions of the Royal Irish Constabulary, which amount to more than 400,000*l.* per annum. Our scheme contemplates conditions under which it is manifest that a balance that would be ample at first might be insufficient to meet the liabilities that would accrue in a few years' time. In such circumstances it would not be necessary that the currency of the second terminable charge should begin at once; it might be deferred until the date when the extra assistance would be really required—by which time, moreover, the liability originally taken over by the Imperial Exchequer would have become sensibly diminished. The arrangement could accordingly be adjusted to the conditions as found to exist when the Bill is under discussion. But whatever the arrangement might be, we think that it should be specifically defined in the original Act, which should fix both the amount of the further charge and the date from which it should run. We must further point out that it is impossible for us to foresee what additional obligations may be imposed on Ireland by Imperial legislation in the interval before an Irish Government Bill be passed; and that if they should be substantial in amount the whole situation would be immensely complicated, and our scheme might be rendered inadequate to meet it.

ESTIMATES FOR IRISH BUDGET.

56. We can now reconstruct our Irish Budget as follows:—

				£
Irish revenue (as in paragraph 52)	..	..	..	10,350,000
Irish local expenditure (as in paragraph 43)	..	12,400,000		
Less Old Age Pensions	..	3,000,000		
				<hr/> 9,400,000
Balance	..	..	..	900,000

At first sight this balance may seem unduly large. But it must be remembered that fresh liabilities in respect of Old Age Pensions and of Land Purchase will accrue somewhat rapidly, and in any case we must repeat that at this stage it is not possible to do more than to formulate the principles of a financial scheme, and to leave the filling in of the outlines with precise figures until the time arrives when the settlement has actually to be made, and when experience will have shown with more certainty what the above accruing liabilities will really be. Further, by that time it might be possible to initiate a scheme of Irish contribution to general expenditure. In that event it might be considered advisable to provide the means for a contribution by still further enlarging the balance to be left to the Irish Government over local expenditure, and this could be done by transferring to the Imperial Government some additional liability in respect of Irish pensions other than Old Age Pensions.

FUTURE OF LAND PURCHASE

57. No interference could be allowed to take place with the progress of Land Purchase under the Acts at present in force, and the guarantee of the British Exchequer would have to be continued in respect of Land Stock hereafter to be issued, no less than of the Stock already issued. That will afford full protection to the stockholder. But the British tax-payer may not unreasonably ask that some security should be provided for him against the risk of having to make good his guarantee, in the event of failure on the part of the Irish Government to collect the annuities which are the first security on which the Land Stock rests. We are satisfied that, apart from unforeseen contingencies, the security is a perfectly sound one. The annuities are by no means excessive, and those who have to pay them are not only free from all suspicion of dishonesty, but have every inducement of self-interest to fulfil their engagements. We received evidence of the most conclusive kind from the officers of the Irish Land Commission on the soundness of the security for the purchase loans and the strict regularity with which the tenant-purchasers pay their half-yearly instalments. The Accountant of the Commission stated that, at the half-yearly settlement, the 31st January, 1911, out of a collection of over 1,000,000*l.* a-year under the Act of 1903, the arrears amounted to no more than 3,875*l.* The alacrity of the purchasers to pay and their fixed determination not to risk the possession of their holdings preclude the possibility of their contemplating a

repudiation of their obligations. Moreover, the selling value of their holdings is much greater than the amount of the purchase loan. Under the system of dual ownership which came down traditionally in Ireland and which was legally recognised when the Land Act of 1881 established for Irish tenants fixity of tenure, fair rents, and free sale, the present occupiers before purchase had a saleable interest in their farms. With purchase loans they bought the landlord's interest. The loan is thus doubly secured. We were informed by one of the Estates Commissioners that the price of the tenant-right has risen very considerably over a great part of Ireland. We learned from the Commissioner of Valuation that the tenant has an interest in his land outside the rent or purchase annuity, and that for his interest outside that charge he can obtain a sum varying from five to forty times the assessed annual value. The land purchase loans advanced on the holdings usually run from seventeen to twenty-five times the valuation. We need scarcely add the obvious fact that by the operation of the sinking fund the tenant's interest year after year is enhanced and the loan diminished. Nevertheless, we think it would be right, in order to allay any possible apprehensions, to make the Irish Government responsible for the annuities in the event of failure on the part of the purchasing tenants; and we suggest that the Government of Ireland Bill should provide that, should payments to the National Debt Commissioners in respect of interest and sinking fund of Irish Land Stock be in arrear for more than three months, it should thereupon become lawful for the King in Council to issue an order appointing a Receiver, to whom should thenceforward be payable all receipts from Customs and Excise, and who should not release the funds received until the claims of the National Debt Commissioners had been fully met.

DOUBLE INCOME TAX.

58. Seeing that, for purposes of income tax, Ireland would become a foreign country, it would unquestionably be necessary to provide against the payment on one and the same income of income tax to both Exchequers. This, however, would not be difficult. Each Exchequer would assess, and, if necessary, levy tax on income arising in, or remitted to, its area of taxation. But where an income was also liable to taxation by the other Exchequer, a certificate of payment would be given, on production of which the recipient would be entitled in the second country to *allowance*—or, if he had already paid by deduction, to *repayment*—of so much of the tax payable there as might be equivalent to the tax he had already disbursed to the first Exchequer. Thus, a tax-payer subject to tax in both countries would eventually be charged only in one, but at the rate of the higher of the two, should the rates in the two countries not be the same. As between the two Exchequers the loss should be equally divided. Each would keep an account of the sums that it had allowed or repaid on certificates, and at prescribed intervals would claim from the other Exchequer one-half of the amounts so allowed or repaid. In connection with income tax we may add that, on a separation of the Exchequers, it might be a question for consideration whether arrangements should not be made under which Ireland would be credited with so much of the tax deducted by the Bank of England from the dividends paid by it on Land Stock as represents income issuing from Irish land.

DOUBLE DEATH DUTIES.

59. Similarly provision ought, we think, to be made against a double charge for death duties. For this purpose all that would be necessary would be an application to Ireland (with possibly some slight modification that might be found desirable) of section 20 of "The Finance Act, 1894," which protects against double charges for death duties in this country and in the Oversea Dominions.

DOUBLE STAMP DUTIES.

60. In respect of stamp duties also double taxation should be avoided, and for this it would probably be sufficient to enact that an instrument duly stamped in one country should be admissible as evidence in the other, subject to the proviso that where the rates of duty differ in the two countries, the difference must be paid on an instrument stamped with the lower rate of duty, before it could be used in the country where the higher rate obtains.

MINOR ADJUSTMENTS.

61. There are sundry subsidiary matters which have come before us in the course of our inquiry on which a few words may be said :—

(i.) There is a certain amount of revenue not classified as national in the Treasury White Paper, including receipts from Suez Canal shares and sundry Loans, and the question arises how far Ireland would be entitled to a share of this revenue. It seems to us that while the question of a contribution by Ireland to Imperial expenditure remains in abeyance, this question should also remain in abeyance, although the Irish title to a share in the receipts must in principle be conceded, just as her obligation to contribute to general expenditure must in principle be maintained.

(ii.) Certain Irish services are at present being financed out of the surplus of the Irish Church Temporalities Fund, and amongst them is a subsidy of 70,000*l.* per annum to the Department of Agriculture, which is used for technical instruction and other similar purposes. The grant was sanctioned for a period of fifteen years from 1900, at the end of which time its amount was to be revised by the Treasury, "having regard to the then state of the Church Fund." We had it in evidence that by 1915 the position of the Fund would be such that it would not be able to provide in subsequent years for an annuity of such a large amount as 70,000*l.* Therefore, unless the subsidy is to be reduced, some charge in respect of it may fall upon Parliamentary Votes. But in view of all the circumstances, we have not thought it necessary on this account to make any addition to our estimate of the expenditure that an Irish Government would have to meet.

(iii.) Ireland is also at present receiving from the Development Fund 17,000*l.* for afforestation and 10,000*l.* for horse-breeding, and certain sums have also, we understand, been promised for road improvement. With a separation of the Exchequers her claims on the Development Fund would presumably cease. But it is conceivable that for such a service as horse-breeding grants from the Fund might still be legitimately made to Ireland; and this and other minor matters of detail may, we think, be left to be determined when practical application is given to the policy we have recommended.

SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS.

62. We may now summarise our final conclusions and recommendations as follows :—

(i.) We recommend that the power of imposing and levying all taxation in Ireland should rest with the Irish Government, subject to such reservations as may be necessary to guard against the raising of tariff questions that might prejudice relations with foreign Powers or trade and commerce between Great Britain and Ireland.

(ii.) We recommend that the obligation of Ireland to contribute to the general expenditure of the realm be affirmed, but that a settlement of the amount of the contribution be allowed to remain in abeyance.

(iii.) We recommend that an Irish Government should take over the whole of the Irish local expenditure, the amount of which some two years hence we put at 12,400,000*l.*

(iv.) We estimate that the revenue an Irish Government might expect then to receive from existing taxes and from non-tax sources would be about 10,350,000*l.*

(v.) We recommend that, to meet the deficit and to provide the Irish Government with a working balance and also a margin for immediately accruing charges in respect of future Old Age Pensions and Land Purchase, the Imperial Exchequer should take over the liability for all Old Age Pensions already granted at the date when the transfer of powers takes place (the amount of which we estimate at about 3,000,000*l.*); and that should the amount so provided appear at the time of settlement to be insufficient, the Imperial Exchequer should take over a further liability for so much of the charge for Constabulary Pensions as might be found to be necessary.

(vi.) We recommend that "double income tax" be avoided, and that each Government should bear one-half of the cost that the concession will entail.

(vii.) We consider that provision should also be made for the avoidance of double death and stamp duties.

(viii.) We recommend that the Guarantee of the Imperial Exchequer in respect of Land Stock should remain, but that the Irish Government should be made responsible

for securing to the National Debt Commissioners regular payment of the sums due from Ireland in respect of the Stock, and that for this purpose power be reserved to His Majesty in Council to appoint a Receiver of Irish Customs and Excise in the event of the collection of the purchase annuities falling more than three months into arrear.

CONCLUSION.

63. This completes what we have to say on the subjects referred to us. We have endeavoured to confine ourselves as closely as possible to the terms of our instructions, and, as we said before, to treat the problem before us as a plain matter of business. But finance is not merely a question of arithmetic. It lies at the root of all government, and cannot be discussed with entire disregard of general political considerations. This must be our excuse if we may have seemed sometimes to presume to trench on issues outside those with which we are more directly concerned.

In submitting this Report we desire to record our high appreciation of the assistance rendered to us by our Secretary, Mr. A. V. Symonds. His business aptitude, and his quick apprehension of requirements, have materially lightened our labours.

We have the honour to be,

Sir,

Your most obedient Servants,

(Signed)

H. W. PRIMROSE, *Chairman.*

J. DENIS KELLY.

PIRRIE.

W. G. S. ADAMS.

HENRY N. GLADSTONE.

FRED. HUTH JACKSON.

WM. PLENDER.

AUBREY V. SYMONDS, *Secretary.*

October 17, 1911.

APPENDIX.

DESCRIPTION OF THE ANNUAL FINANCIAL RELATIONS RETURN (TREASURY WHITE PAPER), PREPARED BY THE SECRETARY

The amalgamation of the British and Irish Exchequers took place in 1817. Pursuant to the Act 56 Geo. 3, c. 10, all revenues in Great Britain and Ireland were, from and after the 31st January 1817, to constitute one general fund, called the Consolidated Fund of the United Kingdom, and that fund was to be charged with and indiscriminately applied to (1) the respective services of the British and Irish debts; (2) the Civil List; (3) all other services previously charged on the separate Consolidated Funds of the two Kingdoms; and (4) supply services of the United Kingdom generally.

Since 1817 the Exchequer of the United Kingdom has taken whatever revenue Ireland has yielded, and in return has accepted responsibility both for the capital liabilities and for the administrative expenses of Ireland, and, in consequence, Ireland's contribution to Imperial expenditure has been represented by the amount by which her true revenue has exceeded her own local expenditure.

The consolidation of the two Exchequers was followed by the unification of the Customs system, and since 1825 no accounts have been kept of the quantities and values of the articles shipped from one country to the other. This absence of accounts has made it difficult to ascertain the true revenue of each country. As Sir Edward Hamilton pointed out in the memorandum which he presented to the Royal Commission of 1898, "it is evident that Customs and Excise duties may be collected in Great Britain in respect of articles which are consumed in Ireland and vice versa, and that in that case the revenue derived from the duty is properly to be credited, not to the country in which the duty is collected, but to the country in which the duty-paid article is consumed."

Notwithstanding the difficulty which has thus been created, attempts have been made to estimate the true revenue of each country.

In the year 1890 a Select Committee was appointed to consider the financial relations between England, Scotland, and Ireland, and in the course of their proceedings the Treasury undertook to collect information bearing on the matter referred to the Committee. Although that Committee never produced a Report, the information collected for their use was presented by the Treasury to the House of Commons as a separate paper in 1891. A similar Return in a rather more accurate form was issued in 1895, and Returns are now annually ordered by the House of Commons, showing (1) the amount of revenue "contributed" by England, Scotland, and Ireland respectively; (2) the expenditure on English, Scottish, and Irish Services met out of such revenue; and (3) the balance of revenue contributed by England, Scotland, and Ireland, respectively, which are available for Imperial Expenditure.

The principles upon which the earlier estimates were based are explained in the Parliamentary Paper, No. 329 of 1891, No. 98 of 1893, No. 248 of 1895, No. 305 of 1896, and No. 513 of 1898, and were subjected to somewhat searching criticism by the Children Commission. For the purpose of these Returns, inquiries were made in the years 1890-1 and 1893-4 as to the movements of certain dutiable articles between England, Scotland, and Ireland, and the Returns presented for the years down to 1903-4 inclusive were based upon the results then obtained. But for the year 1903-4 it was decided to institute a new inquiry, because the results of the former inquiries were likely to have been rendered obsolete by changes of population and other causes, and also because sugar, not being then a dutiable article, had not been included. The steps taken on this occasion to obtain a more accurate basis for determining the contributions to

revenue of the three countries are explained in a Memorandum presented to the Committee by Sir George Murray. Further inquiries have since been instituted by the Revenue Departments to which reference is made below.

The general principles on which the adjustments, made in the Financial Relations Returns, have been based are stated in the Treasury Return of 1891, as follows:—"In all cases of duties on consumable articles, where statistics of consumption are available, the Revenue Departments have taken actual consumption in each kingdom to be the measure of contribution of that kingdom. Where such statistics are not forthcoming, the best information on the subject has been procured, and on such information adjustments have been based, or, in the absence of any information, the receipts have been apportioned between the three kingdoms according to population. This apportionment according to population has only been applied to one or two unimportant articles of revenue, and, as the amounts collected under these heads have been held to be the amounts contributed, the difference in the aggregate contributions would not be material. As regards direct taxes, collection has not necessarily been accepted as the contribution, but adjustments have been made on the principles explained in the memorandum."

The method of apportionment adopted in regard to each particular item of revenue is explained below.

A.—REVENUE FROM TAXES.

1.—CUSTOMS REVENUE.

Cocoa.—The revenue from Cocoa Duty is apportioned between the three kingdoms according to population. The Memorandum by the Board of Customs embodied in Parliamentary Paper, No. 329 of 1891, contains the following statement with regard to cocoa:—"When cocoa is moved between the separate divisions of the kingdom it is so very generally described as 'groceries' in the books of carriers and shipping companies, that it has been found impracticable to obtain any returns as to the quantities removed. It is, moreover, so affected by the addition of confusion, starch, &c., by which its bulk is increased, that its identity becomes completely lost. England is the main locality of importation of cocoa and the seat of its manufacture, and it is possible that it is consumed in a rather larger proportion in that kingdom than in the other two."

No other method has since been devised for apportioning the cocoa duty revenue, and the receipts are accordingly adjusted by reference to the population.

The total revenue from cocoa was £10,000 in 1908-9, £13,000 in 1909-10, and £20,000 in 1910-11. Of these amounts Ireland was credited with £0,000 in 1908-9, £2,000 in 1909-10, and £2,000 in 1910-11.

Sugar and Coffee.—These articles, like cocoa, are so often known as "groceries" that it is very difficult under present conditions to trace their movements. The revenue receipts are, however, divided according to the proportions ascertained for 1890-91 from the returns furnished by the railway and shipping companies in respect of the five months ended 31st March 1891. (See the Customs Memorandum on page 31 of Parliamentary Paper 329 of 1891.)

The total revenue from these articles was £25,000 in 1908-9, £25,000 in 1909-10, and £25,000 in

1910-11; Ireland being credited with 13,000*l.* in 1908-9, the same amount in 1909-10, and 12,400*l.* in 1910-11.

Dried Fruits.—The Customs Memorandum on page 6 of the 1891 Return contains the following statement:—"Great efforts have been made to ascertain 'the movements of dried fruits between the three kingdoms. The members of the trade have been 'appealed to by circular for assistance in securing 'correct information, but with very little success. 'More than forty-nine-fifths of the duty is paid in 'England, and it is possible that the English consumption per head of the population is in excess of 'the Scotch and Irish consumption. Under the conditions stated, however, it has only been found 'practicable to divide the total duty collected according to the relative population of the three divisions 'of the United Kingdom."

The same method of calculation is still pursued. The total revenue from dried fruits was 472,500*l.* in 1908-9, 501,000*l.* in 1909-10, and 472,000*l.* in 1910-11, of which Ireland's proportion was computed to be 46,000*l.* in 1908-9, 49,000*l.* in 1909-10, and 46,000*l.* in 1910-11.

Foreign and Colonial Spirits.—In the case of spirits the Revenue Departments claim that they are able to make an exact adjustment of the respective contributions of the three countries by means of the "Permit" records of spirits removed after payment of duty.

Under the Spirits Act, 1889, no quantity of duty-paid spirits exceeding one gallon can be moved from any one part to any other part of the United Kingdom without an "Excise permit." Different forms of "permits" are in use, but in every case there is a duplicate or counterpart, and under the system devised by the Customs and Excise authorities an accurate record is compiled from the permits or their counterparts of all movements of spirits from one country to another. The total revenue derived from the duty on foreign and colonial spirits was 3,961,000*l.* in 1908-9, 3,820,000*l.* in 1909-10, and 3,229,000*l.* in 1910-11, Ireland's share for each of the three years being 329,000*l.*, 279,000*l.*, and 359,000*l.*

Motor Spirit.—The duty of 3*d.* per gallon on motor spirit is a new duty under the Finance Act, 1909-10, and was imposed on imported motor spirit from the 30th April 1909. It appears therefore for the first time in the Revenue and Expenditure Returns in the year ended 31st March 1910. In that year the total net receipt from the duty on imported motor spirit was 512,000*l.*, Ireland's contribution being computed at 10,000*l.* In 1910-11 the total receipt was 427,000*l.*, of which Ireland was credited with 14,000*l.* The adjustment in this case is based on the estimated consumption in each country, calculated on three months' Customs permits.

Sugar, Tea, and Wine.—The adjustment in the case of sugar, tea, and wine is based on the result of the inquiries instituted in 1903-4. In that year owners of vessels carrying these goods between Great Britain and Ireland were requested to furnish weekly statements throughout the year of their shipments to the collectors of Customs at Irish ports. They were provided with forms showing the details required and presenting results to which official checks might be applied. Officers of Customs were directed to make occasional examinations of these goods, brought from Great Britain to Ireland, or sent from Ireland to Great Britain, and they were instructed to compare the results of their scrutinies with the shippers' accounts, and also to call for manifests and invoices of cross-Channel vessels, comparing the particulars shown thereon with the shippers' returns. The shippers' returns were transmitted to the Statistical Office, where an account was kept of the quantities removed under bond, that is, before payment of duties. By subtracting the quantities moved under bond from the total quantities interchanged, the quantities interchanged after payment of duties are disclosed. When these figures are settled the revenue contributions of Great Britain and Ireland are determined because the quantities on which duty is collected in each division are officially registered. As between England and Scotland the contributions ascertained for Great Britain are divided on population proportions.

The Revenue derived from these articles and the amount contributed by Ireland according to the Treasury White Paper was as follows—

	Year.	Total Revenue.	"Contributed" by Ireland
Sugar	1908-9	3,161,000	297,000
	1909-10	2,960,000	279,000
	1910-11	2,961,000	273,000
	1908-9	6,045,000	582,000
Tea	1908-10	5,678,000	542,000
	1910-11	5,383,000	500,000
	1908-9	1,121,000	82,000
Wine	1909-10	1,123,000	81,000
	1910-11	1,286,000	88,000

Tobacco.—In the case of Tobacco the adjustment has been made with reference to the proportions ascertained in 1903-4.

As was pointed out in Parliamentary Paper 329 of 1891, the conditions under which the consumption of tobacco in each of the three Kingdoms has to be worked out present some complexities from which the calculations in respect of other articles are free. In the case of tobacco there are several rates of duty, of which one is applicable to the article in a raw state, and the others in its various manufactured conditions.

There is official information as to the removals of unmanufactured tobacco, and all unmanufactured tobacco which is moved from one side of the Channel to the other from the bonded warehouses to the manufacturer has to be accompanied by a permit.

But with regard to manufactured tobacco, of which no official account is kept, it is necessary to obtain information from the manufacturers and dealers in the three countries. The method adopted to overcome the difficulty caused by the varying rates of duty on manufactured tobacco was explained to the Committee as follows:—"Broadly, the first fact taken into consideration in the year 1903-4 was the amount of 'leaf tobacco duty-paid in each division of the United Kingdom. That amount was modified by the leaf 'and manufacturers' returns duty-paid that were 'moved from one division to another under permit. 'From these totals the quantities on drawback from 'each country were deducted. Then the manufactured 'tobacco—that is, tobacco made from leaf and 'worked up in free factories—moved from one division 'to another, in the quantities ascertained by Sir Arthur Todd's inquiries, was converted into terms of leaf, 'and added or deducted as the case might be from 'each division of the United Kingdom. The foreign 'manufactured tobacco was treated separately, and 'the interchanges of foreign manufactured tobacco 'after payment of duty, and also of cigars after 'payment of duty were ascertained. The appropriate 'rates were applied to all manufactured and un-'manufactured tobacco in terms of leaf, then there 'was the rule for cigars. Bringing these together, 'we were enabled to show what was the contribution 'from each country."

Acting under instructions from the Treasury the Commissioners of Customs and Excise have obtained fresh returns as to the consumption of tobacco during the past financial year. These returns were based on information supplied by tobacco manufacturers and tobacco dealers as to removal of duty-paid manufactured tobacco (including cigars, cigarettes, and snuff) from Great Britain for consumption in Ireland, or from Ireland for consumption in Great Britain, care being taken to exclude any tobacco removed under bond and any tobacco removed to a port in Ireland or Great Britain, as the case might be, for transhipment or exportation.

The total revenue from tobacco was 12,824,000*l.* in 1908-9, 12,681,000*l.* in 1909-10, and 17,170,400*l.* in 1910-11. Of these amounts Ireland was credited with 1,350,000*l.* in 1908-9, 1,472,000*l.* in 1909-10, and 1,596,000*l.* in 1910-11.

Other Articles.—In respect of other customsable articles the adjustment is made according to population.

The total revenue under this head was 30,000*l.* in 1906-8, 43,000*l.* in 1909-10, and 49,000*l.* in 1910-11; Ireland being credited with 3,000*l.*, 9,000*l.*, and 5,000*l.* in those years.

II.—EXCISE

Spirits.—The figures for Home Made Spirits, as in the case of Foreign Spirits, are ascertained from the "permit" returns (See "Foreign Spirits" above).

The receipts from Home Made Spirits were 17,436,000*l.* in 1908-9, 14,545,000*l.* in 1909-10, and 18,751,000*l.* in 1910-11, Ireland's contribution being 1,948,000*l.* in 1908-9, 1,596,000*l.* in 1909-10, and 2,216,000*l.* in 1910-11.

Beer.—The duty on beer, unlike the duty on spirits, is charged immediately the beer is made. The account is made up every month and the brewer pays the duty whether the beer is ready for consumption or not. Consequently no "permits" are required for the removal of beer from place to place, so in the case with spirits, and so official statistics exist bearing on the question of the true Irish revenue from this source. In the absence of such statistics it has been necessary to base the adjustment on information derived from various sources, chiefly from returns supplied by traders and dealers.

Inquiries with this object were instituted in 1893-4 and in 1903-4, and application has again been made to the brewers and the larger dealers in beer for information as to the removals of beer during the past financial year.

The adjustment required in respect of the drawback on exportation is made automatically. Thus, primarily the net duty is arrived at by deducting the duty repaid in the country where the change is valued; then the returns made by traders of the quantity of beer (other than that exported by themselves) removed to another division of the country affords the necessary information for the adjustment of the several contributions. If some of the beer so valued as removed is exported from the country to which it is sent, and the drawback is paid within that country the proper adjustment is brought about automatically, e.g., if Guinness sends beer to a shipper in London, such beer not being exported by the brewers but by the shippers, Guinness would return this beer as having been sent to England, it would be deducted from the Irish contribution and added to the English, on exportation the English shipper is paid the drawback, which is accordingly deducted from the English contribution, i.e., it is eventually deducted from both the Irish and the English figures.

The Beer duty yielded 12,691,000*l.* in 1908-9, 12,532,000*l.* in 1909-10, and 12,757,000*l.* in 1910-11.

Ireland's contribution is computed as 886,000*l.* in 1908-9, 1,073,000*l.* in 1909-10, and 1,140,000*l.* in 1910-11.

Potent Medicines, Labels and Playing Cards.—By section 4(4) of the Finance Act, 1898, the stamp duties on medicines and on playing cards were deemed excise duties and as such were transferred to the Commissioners of Customs and Excise on the 1st April, 1900. The receipts from these sources appear as a separate item for the first time in the Returns for 1908-10, in which the total revenue therefrom as collected is shown as 343,000*l.*, Ireland being credited with 10,000*l.*, medicines labels being adjusted as estimated in 1896. In 1910-11 the total net receipts were 357,000*l.*, and Ireland's contribution is given again as 10,000*l.*

III.—ESTATE, &c., DUTIES

Generally speaking, in the case of the Estate Duties the revenue as collected is treated as representing the true revenue. In the memorandum prepared by the Inland Revenue and embodied in Parliamentary Paper No. 329 of 1891 it is stated that "the authorities of the Legacy and Succession Duty Office"—now the Estate Duty Office—"are decidedly of opinion that, for practical purposes, it may be assumed that the Probate duty collected in each of the three kingdoms corresponds closely with the duty on the property of persons dying domiciled in these kingdoms respectively . . . The same considerations . . . indicate that the estate duty should be allotted as collected."

With regard to the Legacy Duty it is stated that "this tax is collected in the country where the deceased was domiciled, and, even assuming that it falls on the recipient of the legacy, there is no means of ascertaining in which of the three kingdoms the recipient of any particular legacy is domiciled. This branch of revenue must therefore be taken as collected." And with regard to the succession duty it is said that "this may be taken as mainly (i.e. so extent of four-fifths) duty on real property passing by death. The Succession Duty Office"—now the Estate Duty Office—"reports that the duty, so far as real property is concerned, is almost invariably paid in the country in which the property is situate. The duty is therefore allotted as collected." The present Secretary of the Estate Duty Office expressed his general agreement with the above statements.

No adjustment is made in respect of duty paid in one country on property attributable to (a) persons assessed to income-tax in another country. So far as real property is concerned, the duty is invariably credited to the country in which the property is situated, but in the case of personal property, duty is occasionally paid in one country on property situate in another. The information in the possession of the Estate Duty Office, obtained from the records of "re-washing" (which is in effect the official recording in one kingdom of a will already proved and assessed to probate in either of the other two), shows the amount of English personality held by Scotch and Irish taxpayers, the amount of Scotch personality held by English and Irish taxpayers, and the amount of Irish personality held by English and Scotch taxpayers. These statistics are used for the purpose of making an adjustment of the revenue collected under Income Tax, Schedules C and D.

One correction is made in the estate duty figures, an allowance being made for duty levied on the property of persons dying domiciled outside the United Kingdom, but this correction does not affect the Irish contribution.

The total estate, &c., duties collected were in 1908-9, 18,310,000*l.*, in 1909-10, 21,755,000*l.*, and in 1910-11, 25,709,000*l.* The revenue contributed by Ireland under this head is given as 716,000*l.* in 1908-9, 684,000*l.* in 1909-10, and 1,144,000*l.* in 1910-11.

IV.—LAND TAX AND HOUSE DUTY

The Land Tax and the House Duty extend only to England and Scotland, and are assigned to those kingdoms as collected in them without any adjustment.

V.—INCOME TAX.

Under the Income Tax Acts all property and profits arising in the United Kingdom are, as far as practicable, charged at their first source, without regard to the ultimate destination of the profits or income. It is accordingly necessary to adjust the figures of revenue as collected under certain schedules in order to allow for tax collected in one country on incomes belonging to persons domiciled in one of the other countries.

The duties under Schedules A and B apply to property with a definite situation and are collected where that property is situate. As to Schedule A, there is no means of ascertaining where the persons live who are in receipt of the income derived from such property, and there is, therefore, no alternative but to assign those items in accordance with the figures of collection.

As to Schedule B, the assessments are made on the actual occupiers of the land, who almost universally reside where these lands are situated. The figures of collection therefore represent almost exactly the true contribution.

The necessity for some correction is most obvious in respect of the figures of revenue collected under Schedule C (Profits from Government Securities) and part of Schedule D (Profits from Public Companies, &c.). The great majority of the profits under Schedule C, and a large proportion of those under Schedule D, are assessed in London, but the securities are held by persons domiciled in all parts of the three kingdoms. As, however, the machinery of the income tax cannot be employed to ascertain where the recipients of interest and dividends reside, the adjustments are

made on the basis of the probate statistics of re-sealing. Thus, for example, the average of the Estate Duty statistics for the five years ended 1897-8 show that 2·3 per cent. of the property (five personally) subject to duty was situated in England but owned in Scotland or Ireland (viz. 1·5 per cent. in Scotland and .8 per cent. in Ireland). Accordingly, for the year 1908-9 the adjustment under this head of income tax was made by taking the total produce in the United Kingdom of Schedule C and Schedule D (Public Companies, &c.), deducting 2·3 per cent. from the amount collected in England and adding 1·5 per cent. and .8 per cent. to the amounts collected in Scotland and Ireland respectively. An allowance is also made, the percentage being again based on Estate Duty statistics, for duty on the property of persons domiciled abroad. The effect of these corrections on the 1908-9 figures was as follows:—

Revenue as Collected.				
England	Scotland	Ireland	Total.	
£	£	£	£	
13,716,000	1,378,000	311,000	15,395,000	
Revenue as Adjusted.				
England	Scotland	Ireland	Other Sources	Total
£	£	£	£	£
13,110,000	1,502,000	433,000	390,000	15,395,000

As regards the other part of Schedule D (Trades and Professions), it is believed that one-fifth of the amount under that part of the Schedule may be taken to consist of interest on capital, and to this extent an adjustment is made on the basis of the Estate Duty statistics. The remainder is shown as collected, for as the assessments are made at the place where the trade is carried on, or the profession is exercised it may be taken that, with the exception of the portion representing interest on capital, the tax is borne by persons resident in the country where it is paid.

One-fifth of the official portion of Schedule E, collected in London, representing income tax on the salaries of Imperial officers, including Army and Navy, and being accordingly regarded as Imperial in character, is deducted from the amount collected in England and attributed to "other sources."

Subject to this allowance, the receipts under Schedule E are shown as collected.

VI.—STAMPS.

An adjustment, similar to that made in the case of Income Tax, Schedules C and D (Public Companies), is made to cover transactions effected in London, but relating to Scotland and Ireland. In Parliamentary Paper No 329 of 1894, this correction was made on the whole of the total produce, but in Parliamentary Paper No 93 of 1898 it was stated that "it appears" erroneous to apply to the whole field of "General Stamp" a correction arising solely upon realised "personal property, and the correction has been revised so as to extend only to such portion of the "General Stamp Revenue as the Board of Inland Revenue consider to arise from dealings in such "property."

The portion of the General Stamp Revenue here referred to is composed of the stamp duties on transfers of stocks, &c., marketable securities transferable by delivery, share warrants, and a few other items. On the average the produce of these items amounts annually to approximately one-fourth of the total produce. Accordingly one-fourth of the total General Stamp Revenue is adjusted on the basis explained above.

A further adjustment is made on account of the duty on Insurance Policies, and a correction is also made in respect of taxation levied on property situated in the United Kingdom, the proprietors of which are domiciled abroad.

B—NON-TAX REVENUE.

1.—POSTAL SERVICE, TELEGRAPH SERVICE, AND TELEPHONE SERVICE.

The following statement, supplied by the Post Office, shows how the amounts included in the Financial Relations Returns for the year 1908-10 were arrived at:—

Revenue	
	£
Gross collections in Ireland	1,290,739
Less Payments out of Revenue allocated to Ireland:—	
(1) To Railway Companies and Customs on account of Parcel Post	88,946
(2) To Inland Revenue Department (unified stamps)	26,534
(3) To Cable Companies and foreign countries (foreign telegrams)	14,750
	130,230
Net total	£1,160,509

Expenditure.	
	£
Expenditure booked against Ireland under Irish Sub-heads of the Post Office Vote	1,241,466
Do. under other Sub-heads of the same Vote:—	
Half-share of cross-Channel services	62,080
Uniform clothing, stores and used bags	21,018
Surveyors' and Engineers' salaries	12,466
Superannuations	4,722
Manufacturers of postage stamps, &c.	11,509
Ship letter mails between Scotland and Ireland	170
Repairs to cables	4,103
Amnesty for advances under Telegraph Acts	9,636
Miscellaneous ship-to-shore stations, &c.	4,533
	139,517
Deficit —	
Appropriations in Aid proper to Ireland but credited to England and Wales	8,295
	132,682
Total chargeable to Ireland	£1,374,148
say, to agree with Exchange Issues	£1,365,000

II.—CROWN LANDS.

The accounts of the Commissioners of Woods, &c. are kept in such a form as to show, without much difficulty, both the gross amount of the Crown revenue collected in each of the three kingdoms, and the outgoings in each, which are defrayed before the net surplus revenue is transferred to the Exchequer. Some portion of the Crown revenue under this head is derived from the Isle of Man, and a few other external sources, and is classed as "Imperial" or "Derived from other sources," that is, sources which cannot be assigned to any one of the three component parts of the United Kingdom.

III.—RECEIPTS FROM SUNK CANAL SHARES AND SUNKY LOANS.

This item is treated in the Returns as "Imperial," or "Derived from other sources."

IV.—MISCELLANEOUS REVENUE.

The distribution of the items under this head follows largely the classification adopted for the corresponding items of expenditure. A considerable part of the total (49 per cent. in 1908-9, 35 per cent. in 1909-10, and 59 per cent. in 1910-11) is entered in the column "Derived from other sources."

C.—EXPENDITURE.

In dealing with the distribution of expenditure, the Returns have consistently followed the broad lines laid down in Parliamentary Paper, No. 329 of 1891, viz:—"all items of expenditure have, as far as possible, been divided between the three kingdoms according to as expenditure is incurred on English, Scottish, and Irish services, without there being down any inference as regards the equity of the distribution, or the advantage derived from the expenditure."

The actual methods of analysis applied to the expenditure are stated in the memorandum prefixed to Parliamentary Paper No. 33 of 1893, as follows:—

1. All items clearly arising from the service of the United Kingdom as such, or of the Empire at large, have been put under the head of "Imperial Services." Such items are mainly for the service of the Imperial Parliament, the National Debt, the Army and Navy, and for Foreign and Colonial Services, whether at home or abroad.
2. All items clearly referring only to services for the special use of England, Scotland, or Ireland have been charged against the kingdom to which they respectively appertain.
3. Doubtful or mixed items have been dealt with according to the special conditions of each case, with a view to distributing them, so far as possible, under the four heads of the tables. Such distribution has been made, wherever possible, on a basis approved, or on figures supplied, by the Department concerned.
4. Where analogous services occur in England, Scotland, and Ireland, the English item has generally been charged to England, although, as a matter of fact, it may include expenditure for Scotland or Ireland, for the United Kingdom or the Empire, but where the non-English portion of such an item can be clearly distinguished the separation has been made.
5. Where the expenditure is chargeable to Great Britain only, an attempt has been made to divide it between England and Scotland.

6. Where it has been found impossible to distribute the expenditure on any reasonable assumption, with any approach to fairness, it has been classed as an Imperial service. The total amount, however, of such residuum is small.

7. The division has been carried out on corresponding lines, to a reasonable degree of approximation, into what may be called the auxiliary expenses of Government, *i.e.*, the cost of housing, stationery, and printing, and non-effective services. For this purpose the analysed figures supplied by Departments to the Comptroller and Auditor-General, and appended by him to the Appropriation Accounts, have been employed so far as possible.

It should be noted that the word "Imperial" used in the earlier Returns has been replaced in the later Returns by the word "General."

Inasmuch as the tables are prepared before the actual expenditure of the year has been fully ascertained, the expenditure figures are based on "Rachquer Issues," that is to say, they are based, not on the audited expenditure, but on the imputes which the Treasury make to each Department in order to meet their expenditure. The result is probably that the figures show a slight excess in some cases over the actual expenditure, but over a series of years the difference is practically negligible.

D.—CONTRIBUTION TO IMPERIAL SERVICES.

The third part of the Return brings together the figures for England, Scotland, and Ireland, contained in Parts I. and II., so as to show what would be, on the basis of these figures, the net balance of revenue contributed by each of the three countries, which is available for Imperial or General expenditure after the local expenditure has been met. The accuracy of the estimate thus arrived at must, of course, be measured by the reliability of the figures given in the previous parts of the Return.